FIVE-YEAR INTEGRATED SOCIO-ECONOMIC PROGRAM FOR THE PHILIPPINES

By

President Diosdado Macapagal

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Five-Year Integrated Socio-Economic Program for the Philippines

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President DIOSDADO MACAPAGAL

(Address on the State of the Nation to the Fifth Congress of the Republic of the Philippines, January 22, 1962)

MR. VICE PRESIDENT,
MR. PRESIDENT, MR. SPEAKER,
MONSIGNOR ANTIPORDA,
LADIES AND GENTLEMEN OF THE CONGRESS:

I appear before you today, the elected representatives of the sovereign people, not as President of one party but as President of the entire Nation.

As such, I am charged with the constitutional duty, which I am resolved to carry out, of serving the interests of the members of all groups of our people and doing justice to every man.

It is in this spirit that I now come before you. For in administering the affairs of this nation, you and I share the common responsibility of providing the leadership, the guidance and the service that a democratic government owes to the people. You and I must provide for their enjoyment of those basic requisites for decent living and of those adequate opportunities for the attainment of material prosperity and spiritual fulfillment. Only thus will they be able to stand in dignity and freedom in the community of nations.

We assume our joint responsibilities at a time when the Nation is faced with many serious problems. The eyes of the world are focused on us, anxious to see how this new Government will face the difficulties confronting it. Our performance will be judged not only by our own people but also by the other nations of the world, not only by the present but also by posterity.

Because of the impelling and serious problems facing the country today, I should like to depart from the traditional practice of my illustrious predecessors of delivering an all-embracing State of the Nation message. I shall not burden you now with all the details usually embodied in such a message, especially those related to the customary and routinary activities of the government. While it is recognized that such functions deserve equal and proper attention, I believe it would be more in keeping with the exigencies of the moment to submit, at the proper time and in the hour of need, such special messages to Congress on these matters as may be warranted by circumstances.

In the interest of priority of purpose, therefore, I beg leave to submit for the consideration of this Congress only the most paramount problems of the Nation which, in my considered opinion, require immediate and preferential attention.

STATEMENT OF OUR MISSION

In my inaugural address, I set forth the goals of our Administration in the coming years, as follows—

1. The solution of the problem of corruption;

2. The attainment of self-sufficiency in the staple food of our people, namely, rice and corn;

3. The creation of conditions that will provide more income to our people—income for those who have none and more income for those whose earnings are inadequate for their elemental needs;

4. The establishment of practices that will strengthen the moral fiber of our nation and reintroduce those values that would invigorate our democracy; and

5. The launching of a bold but well-formulated socio-economic program that shall place the country on the road to prosperity for all our people.

This five-fold mission may be carried out by resolving two major problems, namely—the need for moral regeneration and the problem of economic growth.

Democracy on Trial

In the accomplishment of our mission, we have chosen the freedom of democracy as the context for the solution of our problems. Democracy is truly on trial along with us in our social and economic travails.

By our success or failure in leading the Nation from the abyss of want to the plateau of abundance, not only ourselves but also our way of life will be judged. If we falter, we shall fail democracy as well as our people and thus bolster communism's boast that it is a superior political system. But if we succeed in laying a dynamic and permanent base for justice and prosperity in this country, we shall vindicate not only ourselves but democracy itself.

MORAL REGENERATION

Therefore, I first invite your attention to the decadent state of our public morality. Our efforts to achieve the goal of economic and social fulfillment will be more effective and the results we obtain more permanent only if we can suffuse them with a pervasive moral regeneration.

At my inauguration, I stated that I would seek to strengthen the nation's moral fiber through formal modes of reform, enforcement of the laws and the exercise of the tremendous persuasive power of the Presidency in setting the personal example of honesty, uprightness and simple living. The enforcement of the law is solely the responsibility of the Executive Department, but I invite all to join the Executive in wielding the potent power of moral example, and I particularly urge the Congress to assist in conceiving those reforms that will contribute to a moral renaissance of our people.

Let me, however, add that it is wasted effort to steep the young in virtue and morality only to let them realize as they grow up that their elders are neither moral nor virtuous. We must, therefore, see to it that the practices allowed by law in government and business, in the professions and labor unions, in field and factory—in every area of national endeavor—conform as much as possible with the moral and the ethical. Such practices can be sustained and upheld only if we can at the same time create a strong public opinion that will actively approve them and vigilantly condemn the contrary.

In our actions, we should not be guided only by what is legal. We must go beyond legality into the demands of morality. Our acts must not only be legal but must be moral as well.

THE PROBLEM OF ECONOMIC GROWTH

The second and far-reaching need of the Nation is the solution of the problems pertinent to our economic growth and development. It encompasses all our aspirations to attain self-sufficiency in food and a higher standard of living.

We must face the problem of economic growth with preferential emphasis. Proper economic development will raise the income of our people and the revenues of the government. It will thus produce the additional funds and facilities necessary for effectively discharging the other functions of government and for meeting the needs of our population. We must ever bear in mind the fundamental fact that it is through the adequate advance of the national economy that a higher standard of living can be attained by our people. We must accelerate the coming of that day when this country shall be not merely the exploited domain of the privileged few but a land where the common man shall stand erect, the equal of his fellow men, able to protect his rights and possessions, and sharing in dignity and freedom in the task of building an ever greater Nation.

The Dimensions of Our Economic Deficiencies

Before assuming the responsibilities of the present, let us first determine the magnitude of our tasks. In this way we may measure the dimensions of the efforts we must exert in order to succeed.

That magnitude is evident in the rapid growth of our population, and in the corresponding increase in the demand for food, shelter, schools and jobs.

Philippine population is now growing at the annual rate of 3.2 per cent. This means approximately one million more people every year to feed, to house, to clothe and to employ. What are the implications of this rate of growth?

On consumption of essential foods.—By merely maintaining present consumption levels of essential foods—rice, bread, meat and dairy products—which are below nutritional standards, we have to increase rice production by 1.56 million cavans per year, meat by 14 million kilos and milk and dairy products by 11 million pounds.

On housing.—Our housing problem defies imagination. In 1960 there were 4,566,000 households in the country. By 1965, based on an estimated 130,000 more households formed each year, the total will increase to some five and one-third million. The rapid concentration of families in urban centers and the inadequate housing facilities available at the present time emphasize the magnitude of the resources required to provide shelter, not to say civilized dwellings, for our people.

On education.—Expanding population means that government services must correspondingly increase. There will be an average of 960 thousand children reaching school age every year. Subtracting the normal loss in graduates and dropouts, the total student population of the country will continue to increase at the rate of no less than 600 thousand each year.

On employment.—In 1960 the number of the labor force was 10.2 million. This number will likely increase at the average rate of 360 thousand every year for the next five years. If we are merely to prevent the unemployment rate from increasing, we must create job opportunities for this number of people each year. We must also absorb the backlog of the unemployed and provide fuller employment to the underemployed.

These are only some of the hard facts of our social and economic needs. They are the urgent requirements of our growing population.

The Basis of Past Economic Growth

During the last fifteen years since independence, Philippine economic growth was characterized by many factors and circumstances, namely—

- the adoption of exchange controls in December 1949;
- tax exemption privileges enjoyed by new and necessary industries, which include all customs duties, compensating taxes, sales taxes and internal revenue taxes;
- one billion pesos worth of bond issues for reconstruction and development as authorized by R. A. No. 1000;
- our traditional export industries—coconut products, sugar, mining and logging and lumber mills had just been restored to pre-war capacities;
- the extremely strong and stable world market for copra, our principal export;
- the almost total absence of manufacturing industries so that consumer goods in finished form constituted the main bulk of our imports;
- the high level of available foreign exchange; and

* the windfall of war damage payments and aids from the United States.

Overall Growth Rates.—The character of the period was manifested in some of the overall statistics of economic growth during this era. Taking the period from 1950 to 1959 as a whole, gross domestic product increased at a compound rate of 6.3 per cent per year while total production grew at about 3 per cent.

Domestic production was augmented by substantial importation. Imports were financed by rising export receipts, by the in-flow of foreign capital largely in the form of re-invested earnings, substantial foreign donations and by a reduction in the country's international reserves.

The combination of growing domestic production and substantial imports increased the availability of goods and services in the economy. These were largely absorbed by consumption which increased at the rate of 3.3% per annum per capita. Investments were only increased on a per capita basis at the rate of 1.3% per year. During that period the country was only investing at the rate of ₱8.62 for every ₱100.00 worth of gross product available. The rapid growth in domestic production was achieved with relatively small investment of capital. During the decade, it took only ₱1.36 of investments to get each ₱1.00 increase in domestic product.

Recent Changes in Policies

In the last two years, fairly radical changes in policies have occurred. On April 25, 1960 the cheap dollar policy of the Central Bank came to a close. The policy had undergone several modifications before that date. But these modifications took somewhat less direct forms. Thus the exchange tax of 17% increased the exchange rate for most important transactions from ₱2.015 to ₱2.358. Barter made it possible for exporters of certain grades of commodities to appropriate a portion of the premium on foreign exchange. Finally, the margin fee which replaced the exchange tax effectively raised the exchange rate.

On December 31, 1955, Executive Order No. 150 increased tariff duties on several commodities and on June 22, 1957, Congress passed the Revised Customs Code of the Philippines which also raised the duties on some lines of imports. These had the effect of raising the cost of imports. But it was not until April 25, 1960 that the Government took official cognizance of the fact that the rate of ₱2.00 per US $1.00 was unrealistic.

Many firms are now losing gradually the benefits of the tax exemption law. In its stead, the Basic Industries Act provided a more limited tax exemption for the machinery and equipment importation of "basic industries." Only import duties, special import taxes and other levies on importation are waived.

What does all these mean? Over all, profits on foreign exchange will cease to be a source of inducement for investments. To some extent, the Basic Industries Act and the Tariff Code may provide specific inducements to particular types of enterprises. It is safe to anticipate, however, that more than at any time during the last ten years, business enterprises will have to rely for attractiveness of economic efficiency in processing and in distribution.

Significance of the New Policies

Two conclusions follow from the premises:

1. The field for investment during the next ten years will be much narrower at the start because the tests of attractiveness and feasibility will be more rigorous.
2. The character of the investments will change. More basic developmental effort will be necessary.

Further development of mining, agriculture and forestry will involve more substantial investments in basic facilities—roads, irrigation and water control system, warehouses, heavy equipment for clearing and cultivating, pest control equipment, housing, etc. This is the result of bringing less developed lands under cultivation. The development of forestry will involve exploiting more remote timber lands. The expansion of mineral production will mean more extensive exploitation and development of deposits in more remote places. Further progress in industrialization will mean the establishment of facilities for processing raw materials.

During the past ten years, the chief industries which were newly established, being devoted to the later stages of processing, assembly and packaging, had to be located in or around Manila, near the principal markets. In the coming years, the principal industries will likely be located near sources of cheap power or raw materials. Larger investments will be required in the country to set up new communities with all the facilities involved in building water systems, electric power generating and distribution plants, sewerage systems, housing, roads and communications facilities.

Further growth in the Philippine economy will thus involve larger average investments than in the past. The country will need to rely to a larger extent on external resources from foreign aid, institutional loans, and foreign investment.

To look at this picture in terms of the statistics of overall economic performance, if from 1950 to 1959 the equivalent of ₱1.00 of additional output in the economy could be achieved by overall investments in fixed assets and inventory of ₱1.36, in the coming years it will likely take between ₱2.50 and ₱3.00 of investment to achieve ₱1.00 of growth.

The other side of investment is saving. To try and double the rate of investment will mean that we have to increase the rate of savings in order to continue the growth of per capita product in this country.

THE ECONOMY TODAY

Thus, today we must begin our labors at a point of economic difficulties. To fully realize the severity of the tasks before us we must recognize that:

Firstly, the country has fully exhausted the potentialities for growth offered by the complement of policies ruling over the decade of the 1950's. Over the last three years from 1958 to 1960, the growth rate of real gross national product has declined.

Secondly, it has become obvious that the impetus to investments which exchange controls and various tax incentives provided has worked itself out.

Thirdly, the country already enjoys to the fullest extent the export potential feasible under present exchange and trade policies. The weakening of world copra prices has caused the country's export earnings to level off from the rather steep growth of the last ten years. Even the stability of our earnings from sugar exports is threatened by the current move in the U. S. Congress to have the United States purchase sugar on the basis of a global quota and at "world free market prices."

Fourthly, this weakening of our export potentials assumes most serious proportions in the light of an immediate balance of payments problems. Philippine international reserves have dropped to a precariously low level—unprecedentedly lower than any which has caused great concern in the past.

Finally, we are faced with a serious population problem. Philippine population growth is one of the highest in the world. The country's requirements for consumer and capital goods must grow with it.

Urgency of the Problem

The urgency of the problems of the present definitely calls for drastic changes in our monetary, fiscal and exchange policies. Because of government inaction, speculation has become the order of our day. Exporters have been holding back negotiations of export sales. Importers have been fast building up inventories of imported goods in anticipation of higher costs.

Uncertainty and instability are visible under the symptoms of rising prices, low purchasing power of the currency and increasing unemployment. Fiscal revenues have not increased in proportion to the clamor for more government expenditures. Consequently, the public debt has increased considerably.

But most important of all, our own investors have for at least the past three years held off making long range plans until the government policies become clearer and more stable. The climate, far from being beneficent to the type of long-term saving and investment which our situation requires, is hostile to long-range planning and encourages short-term speculation.

In the light of these facts, I must declare that government action is imperative. To this end, we must—

a) establish immediately a new, stable base for business valuation and planning to remove the uncertainties that pervade the present economic atmosphere; and

b) set clear directions for overall economic, monetary, fiscal and commercial policies and for government investment programs in order to generate a new dynamic for continued economic growth.

THE FIVE-YEAR INTEGRATED SOCIO-ECONOMIC PROGRAM

Need for an Economic Development Program

It is essential for the government to formulate and adopt an integrated economic program. Without it, all economic development efforts will be haphazard, sterile, and ineffectual. There will be uncertainty and the business community will remain in a state of doubt as to what economic policies, decisions, and activities the government will undertake.

Past Efforts.—The sluggishness in the pace of economic development in recent years was largely traceable to our failure to officially adopt a concrete economic blueprint that sets down vividly the course which the public authorities are to pursue in the matter of promoting economic growth and which the business community and the people at large may utilize to advantage as a guidepost to their own efforts.

It is true that there were attempts to formulate an economic planning program for the country, notably by the National Economic Council. The last program formulated by the Council was for the period 1959–1962. The plan, however, remained good on paper only as it did not receive presidential approval, much less congressional adoption.

Our Program.—I am, therefore, submitting to this Congress, as part of this message, an integrated five-year socio-economic development program which we propose to adopt and implement during our tenure and which both the Government and the private sector may use as a guide. This program focuses attention on the most pressing economic problems of the country and incorporates within its framework our economic philosophy translated into concrete, appropriate policy measures and institutional reforms.

As it shall be tedious to read the whole program on this occasion, I have appended it to this message as Annex A.* For a proper appraisal of this program, I suggest for supplemental reference the recent study made by the World Bank on the Philippine national economy, dated January 4, 1962, as well as the last economic development plan made by the National Economic Council, printed copies of which are also appended hereto.*

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* Annex A and Appendices I and II were attached to copies submitted to Congress for ready references.

Objectives of Our Program

While I commend to Congress the full perusal of this socio-economic program, I should like to underscore some of its more significant highlights.

The great goals we seek and the critical condition of the economy today make it essential for the Government to accomplish the three-fold objective of: 1) immediately restoring economic stability; 2) alleviating the plight of the common man; and 3) establishing a dynamic basis for future growth.

RESTORING ECONOMIC STABILITY

The present speculative atmosphere in Philippine business springs from uncertainty with respect to government policies. With the objective of immediately stabilizing the economy, and apropos of the five principal sources of instability I have earlier indicated, we propose to implement—

First, a program of exchange rate adjustment and unification and a procedure for orderly decontrol to transfer the allocation of foreign exchange to a genuinely free market;

Second, a set of complementary measures to protect Philippine and Filipino industry and agriculture from undue foreign competition at their "infant stages"; and

Third, a set of policies and measures to provide guarantees to foreign investors in particular lines of investments, principally mineral exploration and heavy industries such as iron and steel and basic chemicals, together with an official declaration of preference for joint international business ventures with substantial Filipino capital and management participation.

GENUINE DECONTROL AND FOREIGN EXCHANGE PROGRAM

It is my privilege to inform Congress that yesterday, January 21, 1962 I approved a unanimous decision by the Monetary Board of the Central Bank, embodied in its Circular No. 133, to institute the first large measure of genuine decontrol in our foreign exchange transactions since the establishment of exchange controls over a dozen years ago. This is both in fulfillment of our electoral pledge to the Filipino people and in compliance with the provision of the law requiring decontrol by 1963. In an atmosphere of freedom, our entrepreneurs and citizens may now achieve prosperity for themselves and the country not through artificial advantage but through their talent, integrity and industry.

Exchange control had become a cesspool of corruption that brought disgrace to the Nation. With genuine decontrol now in effect, we have removed a vital source of graft and, I trust, we have thus shown that we are ready to give up a part of the economic and political powers of the Presidency to eradicate corruption and promote the national wellbeing.

This action had become imperative and desirable for several reasons. The imbalances of the past must be righted. The administration of controls had become so complicated and cumbersome that only a sweeping change could remedy the situation. There was such a shocking maladministration of economic policy, particularly as regards fiscal and foreign exchange policies, that inflationary forces had been reactivated and our dollar reserve had been virtually wiped out. At the same time, a new climate was desirable in which our economy could move forward with confidence and optimism despite transitional difficulties.

It may now be expected that with genuine decontrol instituted in our foreign exchange transactions, a completely new atmosphere will prevail in our economy. The allocation of foreign exchange and the determination of the exchange rate will be left to market forces rather than to the arbitrary decisions of administrators. We should clear the obstacles which have grown up in the past during the regime of controls, and liberate the energies and imagination of our people and our entrepreneurs for economic projects of lasting value to the country. For the first time, the people will have it in their hands to determine the true external value of the peso by their freedom in buying and selling, without the necessity of licensing. With the uncertainties of an arbitrary control mechanism removed, I expect renewed investments to take place. Furthermore, with barriers to free movement removed, I expect foreign investments to come in in an ever greater flow to supplement our savings and augment our investments.

As is the case with any necessary moves of a sweeping nature, there will be difficulties at the outset, but these will be transitional and should lay the base for real economic stability with a more rational economic system in the future. Some of these difficulties are the necessary outcome of the previous practice of disguising overall arbitrary and inflationary policies by favoring a few commodities with special treatment. In so doing, they only postponed the real solution to our problems by diverting our productive resources away from the production of substitutes for these commodities.

In order to prevent runaway inflationary movements, the Monetary Board has taken complementary measures to restrain the unwarranted creation of credit, especially for speculative purposes. As a further protection to consumers, I have directed the Secretary of Justice to study and alert the applicability of Article 186 of the Revised Penal Code aimed at conspiracies and combinations in restraint of trade or collusions in fixing prices.

All these moves have been taken after consultation with and approval by the International Monetary Fund. In addition, we have secured commitments from the United States Government and from private banking institutions to support our decontrol program. I am glad to announce that the Special Presidential Mission to the United States headed by Acting Secretary of Finance Fernando E. V. Sison has secured financial support for these moves in the amount of $300 million. This does not include the amount of $55 million still available from the International Monetary Fund, $93.7 million worth of commodity accommodations from U.S. Law 480 and $73 million from additional war damage payments. We can count on further support from both international and United States entities including the U. S. Treasury once our decontrol program is underway, as well as financial support that may be negotiated with other countries.

In substantiation of this statement, I quote hereunder a dispatch datelined Washington, relayed by UPI and published in this afternoon's papers, as follows:

> "Washington, Jan. 21 (UPI)—The United States demonstrated its support of the new Philippine program by announcing it will provide the Philippines with

> loans from the Agency for International Development and the Export-Import Bank.
>
> "The U. S. Treasury will also assist President Diosdado Macapagal's new foreign exchange program with its stabilization fund."

Our decontrol program, therefore, is fully backed up by massive and more than adequate financial support that we have merited from external sources. With the cooperation of all concerned, I am confident that the decontrol program will succeed to pave the way for a stronger economy and prosperity in freedom for our people.

I must emphasize that the launching of genuine decontrol is only the short-term commencement of our long-term economic program. We are laying the basis for stable and orderly growth with a stable and orderly currency. I am arranging for large long-run production and development credits to bolster our investment effort, as distinguished from short-term commercial credits which have been used at times for speculative purposes. I am also going ahead with plans to set up a private industrial development bank, towards whose subscription we expect to secure external financing both from international agencies and from funds generated under U.S. Public Law 480.

I feel confident of the success of the decontrol program, both because of the complementary measures that go with it and the massive financial support which we have merited from external sources. I call on our people to face the new situation without apprehension and excitement and to set their sights on the prospects of a bright future rather than on the temporary difficulties of the present. I assure our people that I have taken this step in fulfillment of my sworn duty to serve only their welfare. Some transitional difficulties are perhaps inevitable but in due time, the situation will open the enjoyment of a better life for our people. The best norm of conduct for all is to behave with restraint and patriotism so as not to place undue strain on our currency. I feel confident that the people will comport themselves in their own best interests.

As we have taken the measure of genuine decontrol for the wellbeing of our people, we will not brook any conspiracies against them by attempts to foil up the program. Should any speculative movements arise, I declare that the ample financial resources which we have secured will be deployed against movements unwarranted by normal market forces and that the full force of the law will be brought to bear against speculators and conspirators.

In any event, such speculative movements cannot be of long duration, as our economic development program goes into gear and the country's production begins to fill the pipelines of commerce and to elevate the living standards of our people.

To cope with the long-run foreign exchange problems of the country, the integrated economic program sets as one of its major objectives the promotion of our export trade in order to raise adequate foreign exchange resources *a*) to meet the import requirements of the nation for the next five years; *b*) to honor all the foreign exchange liabilities of the country including investment remittances, interest and amortization on foreign loans and repatriation of capital; and *c*) to generate an increase in the international reserves which will provide the fund adequate to stabilize the international value of the peso.

Policy of Protection to Domestic Industries

One of the principal fears of business in the decontrol of foreign exchange is the loss of the protection which exchange controls provided to domestic industry against undue external domination. There is no valid ground for this fear. As the exchange control machinery is dismantled, the alternative means of achieving the legitimate ends of controls shall be instituted. To this end, I have availed of the power granted us by law to increase the rates of import duty on nearly 700 articles already being produced by domestic industries in order to provide them a means to meet the loss of the protection they have enjoyed under exchange control. Besides this measure, we propose—

1) To make such further increases in the tariff as may be found necessary to provide a reasonable margin of preference which will render domestic producers more competitive;

2) Wherever necessary, the Tariff Commission shall recommend the imposition of countervailing duties under Section 302 of the Tariff Code to offset benefits that may be derived by imports from foreign subsidies. To the same end, the Secretary of Finance has been instructed to immediately cause to be undertaken a study of articles of imports that are being "dumped" into the Philippine market from abroad within the context of Section 301 of Republic Act 1937;

3) The Tariff Commission has been directed to immediately investigate, in accordance with Paragraph G of Section 402 of the Tariff Code, whether and to what extent commodities imported by the Philippines from countries with

which a trade agreement has been entered are being imported in such increased quantities as to cause or threaten serious injury to the domestic industry producing like or directly competitive products in order to recommend the establishment of import quotas for the protection of the domestic industries affected.

Policy on Nationalization as It Affects Foreign Capital Inflow

It will be noted that the program raises the necessity of earnestly attracting foreign capital to assist in the financing of the program. For this reason, a healthy climate for foreign investments must resolutely be created. This task is related to nationalism, with respect to which it is desirable to set forth concretely and clearly the position of the Administration.

The Administration upholds nationalism. Properly channelled, nationalism is a constructive and powerful force in the growth of a nation. Its assertion considers relevant factors such as choice of field and timing. It has been asserted wisely in the nationalization of the retail trade, which is the channel of distribution of the elemental requirements of our masses in their day-to-day living. It has been asserted even more wisely in the nationalization of the rice and corn industries, which provide the staple food of our people.

While we uphold that the principal responsibility for development should belong to Filipino citizens, who must be the principal determinants as well as chief beneficiaries of Philippine economic progress, we at the same time caution against the type of radical nationalism and nationalization measures that deter the coming of foreign assistance in our economic development. We must be sincere in attracting foreign capital to invest in productive enterprises in our country in joint ventures with Filipino businessmen and must show this sincerity not in words but in deeds.

ALLEVIATION OF THE PLIGHT OF THE COMMON MAN

The second goal of our integrated economic program is the immediate alleviation of the plight of the common man. In comparison with the living standards of the relatively wealthier countries, ours in the Philippines is far from adequate. The per capita consumption of superior foods like meat, eggs and milk, beans and vegetables is far below healthy nutritional standards and much lower than what obtains in wealthier countries.

Moreover, within the Nation itself, the distribution of welfare is far from satisfactory. This is indeed a nation of contrasts where very few regions and communities enjoy affluence in contrast to widespread poverty in others.

It is our avowed task in the program to translate objectives into specific improvements in the overall level of economic welfare and its distribution. Improvement in this sense means that our production capacity must grow more rapidly than the growth of our population. It also means that those regions that have lagged behind in progress must be given special assistance to enable them to participate more fully in over-all national progress.

The Rice and Corn Program.—In accordance with my pledge, I have incorporated, as a major feature of our five-year socio-economic plan, a rice and corn program to bring about, at the earliest possible time, sufficiency in those cereals at prices within the reach of our masses. It is paradoxical that in a land with resources ideally suited to the production of rice, the country is unable to produce enough of this product which is the staple food of our people. We must liquidate this problem with resolve and success as a first priority. It is ironical to talk of magnificent plans for progress and prosperity if we cannot even provide the rice and corn that our common people cannot go without in their daily lives. Before attempting anything else, let us work together to insure that our people have and be able to afford the rice and corn that they need in their daily living.

We shall also concentrate our efforts to raise agricultural productivity throughout all the regions in the country in order to achieve self-sufficiency in food production. It is incumbent upon government to provide improved irrigation and water control facilities, the continuation of subsidies for fertilizers and seeds, expansion of research programs for developing high-yielding and disease-resistant varieties of agricultural crops, the establishment of liberal credit facilities, and the improvement of marketing and transportation networks.

Program for Employment.—Our greatest task in improving the welfare of the masses is to ensure that opportunities for employment are generated. Our program envisions that the attainment of the target increase in overall domestic production of about 6 per cent per annum over the period FY 1963 to 1967 will ensure that some 330,000 to 360,000 jobs will be provided annually to absorb a large portion of the yearly increase in the labor force. It is also a part of our program that the greater portion of the annual increase in employment is to be absorbed in industrial production. This will increase the average wage earnings of the mass of our workers.

Public Services.—I also propose greater outlays by the Government for public services designed to improve the general living standards of the people, particularly in the less developed areas of this country. It is my belief that the Government can provide a total outlay of ₱656.6 million for public education, about ₱15 million for low cost housing projects and ₱470 million for public health over the next five years. The public health program shall include expansion of health services in rural areas, water supply, reduction of infant mortality, tuberculosis and malaria control, establishment of medical research centers, and nutrition research.

ESTABLISHMENT OF DYNAMIC BASIS FOR FUTURE GROWTH

Our final goal is to establish a framework of policies that will give a stable basis and a more realistic and sober impetus to a new growth trend which will extend much farther into the future. The new dynamic for economic progress that we seek and should attain must be of a more genuine quality and must provide a richer and longer lasting energy for national progress.

In assuming our proper responsibilities, we shall be guided by the economic philosophy of Faith in the Filipino. We believe that economic development is principally a task of private enterprise and not of government. The government's role is to create a favorable environment that will provide the inducements necessary, in terms of suitable policies and measures needed, to foster economic growth and stability. It must be in a position to devise new and effective methods, democratic in character and spirit, to induce the private sector—properly called the dynamic sector—to risk idle capital for development purposes.

The exchange rate adjustment and the stabilization program are expected of themselves to create a fundamental climate favorable to investments in the required lines of activity. The specific role of government will be to provide direct assistance where needed, to establish required social overhead facilities, and to ensure that bottle-necks to production are neither created nor allowed to persist.

I must point out, however, that the restoration to a large degree of the freedom of enterprise does not remove from government the obligation to exercise economic leadership. On the contrary, government leadership not only becomes all the more important, but its exercise must be all the more firm as it is all the more just, imaginative and skillful.

Requisites for Government Economic Leadership.—The first requirement for government is to ensure the judicious application of public investment programs to the establishment of basic facilities such as roads and irrigation systems, transportation and communications networks, hydroelectric power, harbor facilities, and the development of land, forest and mineral resources. The program envisions that it is feasible for the Government to put up directly ₱2,809 million over the five-year period 1963 to 1967 for these purposes. These investments will amount to an annual average of ₱562 million to be financed from current government savings, reparations, foreign loans, and domestic bond issues.

The second requirement for government is the establishment of a complement of policies designed to induce and mobilize the maximum of internal domestic savings and the maximum external financing in order to sustain the overall investment requirements of the economic development program.

Over the five years from FY 1963 to 1967, we anticipate that a total of ₱11,500 million must be mobilized in the form of domestic savings out of a total gross national income of ₱78,200 million expected over the same period.

All the powers at present available to induce savings out of current incomes must be put to effective use. The Central Bank of the Philippines shall be urged to push with greater vigor the establishment of local community cooperative banks and savings and loan associations and to encourage these institutions to offer more attractive inducements for systematic savings plans.

It is necessary to undertake a careful re-examination of the tax structure so as to ascertain the impact of the present tax rates on investment activity and living costs; to adjust the rates or eliminate those taxes that are either unduly inequitable or are hampering the growth of investments and output and to recommend new tax measures to support the government's socio-economic program. The Executive-Legislative Tax Commission should immediately apply itself to this problem and make appropriate recommendations as early as possible for desirable changes in the tax structure consistent with the basic objectives of economic policy.

It is likewise the objective to promote the expansion of the facilities and resources of existing financial intermediaries, and the establishment of new ones designed to induce habits of thrift in, and mobilize the savings of the rural communities.

In anticipation of foreign investments and loans from abroad, our program proposes to provide facilities for private business that will enable them to meet the requirements of foreign investors and creditors in a manner that will redound to the greatest advantage of the country.

We likewise foresee that the establishment of a new complement of policies necessitates adjustment—the beneficiaries of older policies are likely to suffer the burden of losing benefits. It is incumbent on government to anticipate and measure the costs of adjustment, and to distribute its burden in an equitable manner.

THE OVERALL TARGETS OF THE PROGRAM

The goal of the program is essentially to ensure that domestic production, augmented by imports, shall be adequate to supply the needs of our people.

In order to meet the requirements and to improve overall levels of living, gross domestic product needs to grow over the five-year period at a compound rate of 6 per cent. The annual growth rate must rise from 5.5 per cent between 1962 and 1963 up to 7.0 per cent from 1966 to 1967.

The targets are feasible provided—

1. An average of 16.1 per cent of gross domestic product is channelled into gross domestic investments during the five fiscal years;

2. Gross domestic savings including reinvestments of foreign earnings in the Philippines reach 13 per cent of gross domestic product in FY 1963, 13.8 per cent in 1964, 14.6 per cent in 1965, 15.4 per cent in 1966, and 16.0 per cent in 1967;

3. There is a total net inflow of new foreign capital into the country of roughly U. S. $860 million during the five-year period; and

4. The export earnings of the country total U. S. $3.7 billion during the period or an average of $740 million annually.

The rate of gross domestic investments is intended to mobilize new capital formation of ₱12.7 billion over the five fiscal years. This amount has been allocated on the basis of a first approximation of sectoral and regional priorities that give emphasis on the production of import substitutes such as integrated iron and steel, basic chemicals, pulping plants, expansion of agricultural food production and processing, and the development of the cattle and diery industries.

The Government's share in the total investment target is placed at ₱2.8 billion or 22 per cent of the total target of ₱12.7 billion. The public investment program includes principally ₱1.3 billion for water supply, roads, highways and irrigation, and ₱1.1 billion for power development, and expansion of railroad lines and of telecommunications.

In these magnitudes, the total program can be financed entirely from non-inflationary sources: from domestic savings as well as foreign loans and investments. In addition to the normal growth of domestic savings flowing through such financial intermediaries as the commercial banks, the Government Service Insurance System, the Social Security System, the Postal Savings Bank and the private insurance companies, the program contemplates the establishment of rural savings institutions and cooperative banks to encourage systematic savings out of current income in the farm areas.

The anticipated government revenues during the program period are expected to cover current expenditures and a little savings to finance a portion of the public investment program. The balance will be financed out of bond issue sold at *competitive money rates directly* to insurance companies, pension funds, private banks, and other private investors.

An outstanding feature of the program is the contemplated reorganization of public administration to improve the machinery for the formulation and implementation of consistent economic plans and fiscal and monetary policies, to achieve maximum coordination among the various departments of the Executive Branch of Government in the pursuit of economic objectives, and to attain more rigorous control over government budgetary and developmental expenditures.

SPECIFIC RECOMMENDATIONS

I shall take the initiative of immediately implementing those remedial measures that need no legislation, and such part of the program will be the responsibility of the Executive.

But many of the specific measures that must be established require legislative action. They shall be measures of far-reaching implications.

I, therefore, recommend for your consideration the enactment of legislation which would establish, promote, and sustain the following specific measures:

For Moral Regeneration

1. The establishment and financing of a Moral Commission composed of outstanding and upright leaders in govern-

ment, religion, education and the professions. This Commission shall study and recommend ways and means by which all elements and institutions of the country may be mobilized towards the goal of national moral regeneration.

For the Immediate Alleviation of the Plight of the Common Man

2. The adoption of a comprehensive program on rice and corn which shall achieve self-sufficiency in these cereals at prices within the reach of the masses; and the establishment and financing of a Rice and Corn Administration to implement the program. This entity shall absorb the functions of the NARIC and shall coordinate various programs concerning the production, processing, and marketing of rice.

3. The enactment of legislation to assist private enterprise in the creation of job opportunities. Specific measures will be submitted to Congress to support employment projects that not only will create jobs but will also simultaneously increase production and productivity.

4. The appropriation of funds for the construction of apartment houses for displaced squatters and persons pertaining to the lowest-income groups who shall pay nominal rentals for occupancy thereof.

5. Greater outlays by the government for the improvement and expansion of essential public services designed to raise the general living standards of the people, especially in economically-depressed regions of the country. These public services include education, more low-cost housing, and public health.

For Support of the Decontrol Program, Restoration of Economic Stability and Establishment of Dynamic Bases for Future Growth

6. Further revision of tariff rates as Congress may deem necessary with the following objectives:

a. To use tariffs as instruments of economic development by protecting our domestic industries until such reasonable time when these industries can be exposed to world competition.

b. To discourage conspicuous consumption by imposing prohibitive tariffs on luxuries.

7. The passage of a foreign investments law, with the following objectives:

a. To clearly delineate the fields of economic activities open to foreign capital, thereby protecting the preferential rights of Filipinos in certain economic fields.

b. To attract new foreign investments to flow into the country.

c. To define unequivocably the treatment of foreign capital, particularly concerning repatriation of capital and remittances of profits.

8. The enactment of an appropriate law imposing a selective export tax on certain protected exports, and on raw materials that can be processed locally, with the following objectives:

a. To prevent inflationary pressures arising from decontrol and generated by windfall incomes of recipients of foreign exchanges.

b. To expand government sources of investible funds for overhead projects essential to economic growth, by obtaining such funds from a sector which has ample resources.

9. The repeal of the margin levy on foreign exchange, to give relief to the consumers who will ultimately bear the burden of adjustments in the exchange rates arising from the decontrol program.

10. The repeal of the barter law.

11. To re-examine and revise the tax structure so as to ascertain the impact of the present tax rates on investment activity and living costs; to adjust the rates or eliminate those that are inequitable and to enact new tax laws to support the government's industrialization program. Specific tax bills shall be presented to Congress in due course during the regular session.

12. To amend the charters of the Development Bank of the Philippines, the Government Service Insurance System and the Social Security System in order to funnel the funds of the last two entities to the Development Bank of the Philippines for lending purposes, with the view to expanding the authority of the latter to grant long-term industrial and investment loans for productive enterprises.

13. The creation of an Anti-Smuggling Office to eradicate smuggling activities that seriously deprive the National Treasury of due customs and internal revenue receipts.

14. The adoption of the five-year integrated socio-economic development program embodied in this message, in order that this program may become not only the program of the Administration but also of the entire Government. Thereby, the program shall serve as the nation's guidepost for economic progress and shall be effectively implemented through the joint efforts of the people and the Government.

CONCLUSION

Need for Sacrifice

Allow me to impress upon you and upon all citizens of the Republic that the task of achieving a modicum of economic development, especially in a developing country like ours, requires serious and concerted effort on the part of both the Government and the people.

Attainment of the desired goals will depend mainly upon public support and a sympathetic understanding of our objectives.

The Government takes the initiative and provides the inducements necessary in terms of suitable policies and measures needed to foster economic growth and stability.

The people, on the other hand, must realize that economic development involves, particularly during transitory stages, sacrifices of magnitude and the subordination of personal ambition and interest to the general welfare.

I say then with candor and emphasis that our people must be ready to undergo sacrifices. The prospects of better times are not likely to be realized without the imposition of self-discipline and the assumption of certain social responsibilities. Progress and prosperity will come. It will come, if all the people rally to maintain economic freedom and security and a higher standard of living for themselves. Single-handedly we cannot realize these objectives. Together, we shall.

Executive-Legislative Collaboration

The responsibilities of the Executive and Legislative branches of the Government are just as demanding. All the agencies of the Executive, including financial institutions and corporations, will be mobilized towards a coordinated implementation of the program. We shall take particular pains to see that there is a minimum of conflict between our announced goals, our economic philosophy, and the day-to-day operations of all those government agencies with which the private sector is continuously in contact.

But the Executive alone cannot meet the prodigious tasks that are required to supply the needs and demands of our people. The Legislative branch has a share in this responsibility. I seek your full cooperation. I will submit additional legislative proposals to this body which are necessitated by an integrated analysis of our economic situation, our problems and our requirements that constitute the basis of our program. From time to time, as the situation requires, I shall come to consult you on pressing matters requiring legislative action.

No one is more aware than I of the coordinate importance of the Executive and Legislative departments of our Government. I am aware of their basic independence of each other.

I am also aware of the need for cooperation between them if the business of government is not to suffer, and if the welfare of the people is to be safeguarded. I therefore appeal to each member of the Fifth Congress to set aside partisanship and contribute his experience and wisdom to the common task entrusted to us by our people. We face a challenge to our free political system, to our dedication as public servants and to our patriotism as Filipinos.

We have been elected under different parties but we have been elected by the same people. As the people did not mind our political parties in placing our hands their welfare and future, so are we called upon not to mind our parties in serving their well-being. Adhering firmly to this attitude, with minds anxious over our people's difficulties and hearts full of sympathy for their just longings for a better life, I have faith that Almighty God will show us the way that we can take together towards the fulfillment of our Nation's dream for a life of dignity, prosperity and freedom.

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ANNEX A

TO THE

STATE OF THE NATION MESSAGE

OF

PRESIDENT DIOSDADO MACAPAGAL

JANUARY 22, 1962

A PROPOSED FIVE-YEAR INTEGRATED PROGRAM FOR SOCIO-ECONOMIC DEVELOPMENT

(1963–1967)

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A PROPOSED FIVE-YEAR INTEGRATED PROGRAM FOR SOCIO-ECONOMIC DEVELOPMENT

(1963–1967)

Chapter I

BASIC PRINCIPLES AND GENERAL APPROACH TO ECONOMIC PROBLEMS

The Macapagal Administration's economic program flows from the following basic principles and policies.

1. The provision of growing sources of livelihood for the Filipino nation is today's most urgent problem. To this the government's prime efforts must be bent. The ambitions of any party or person must be submerged in a total dedication to this overriding task. The machinery of government must be transformed from one designed to ensure the continuance in power of any person or party or to serve the selfish interest of public officials into an effective machine for satisfying the nation's aspirations for a rising standard of living.

2. The task of economic development belongs principally to private enterprise and not to government. The government was not established to go into business. The government can never become a good businessman because of the interference of political factors and because those running the business have no genuine concern for the success of the venture.

3. The principal responsibility for development belongs to Filipino citizens. They must be the principal determinants as well as the chief beneficiaries of economic progress. At the same time the Filipino will welcome all foreign assistance that does not wrest from him his supremacy over his own economic affairs. The new Administration is pledged to see that all such assistance shall be treated with justice.

4. The role of the government is to create a favorable environment for and to assist private business in the performance of its rightful task of developing the country and its resources, to provide guidance and inducements, to protect nationals in their legitimate aspirations and to ensure the just treatment of foreigners who provide assistance to nationals in the establishment and operation of business ventures in this country.

5. To perform its role effectively, the government must win back the confidence of all segments of the population in its integrity. Without such integrity it would be futile to hope that any of our

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serious economic problems would be susceptible to solution. The wisest solution to economic problems will be in vain if we do not have in the government the right men, who by reason of established integrity can be depended upon to implement effectively such a solution.

6. The root source of the corruption that has lost for the government the respect and confidence of the people is excessive economic power. In the last ten years, that power has grown, has become more oppressive, and has corrupted both the officials who have exercised it and the private people who were its subjects. We must now reverse the trend and not only stop the growth of this power but reduce its scope absolutely. The exchange controls at present administered by the Central Bank must be speedily and systematically removed and the fulfillment of their legitimate objectives accomplished by other means. We must find a mechanism for the distribution of credit resources concentrated in the hands of government in a manner that does not give public officials undue power over individual businesses. The administration of internal revenue and customs laws must be reformed to free individual businessmen from the arbitrary exercise of discretion on the part of public servants.

7. The entire government must become no longer a parody and a mockery but a model of efficient, economical and parsimonious administration.

8. It is one of the obligations of the government to be a stabilizing influence on business activity. The government's plans, programs and policies on the basis of which business must plan its operations, must therefore be clear-cut and stable and must not be subject to untimely, drastic and precipitous changes.

The Magnitude of Our Economic Task

Between the last two censuses in 1948 and 1960, a span of twelve years, our population has grown from 19.8 million people to 27.5 million or an increase of 7.7 million. By the time the new administration assumed office the numbers had grown to over 29 million. By the end of the Presidential term the number of our people will have grown by another four and one-fourth million. We are now growing at the rate of over a million people a year.

If we wish merely to maintain consumption of essential foods, rice, bread, meat and dairy products at present level, we must increase rice production by 1.56 million cavans per year, meat by 14 million kilos and milk and dairy products by 11 million. Present levels are by no means ideal compared to the standards achieved in more prosperous countries. We must increase per capita availabilities if there is to be real progress in the livelihood of our people.

The Magnitude of Our Housing Problem

In 1960 there were 4,566,000 households in the country. By 1965 there will be some five and one-third million. From 1948 to 1960 some 81,000 new households were formed each year. From 1960 to 1965 it is estimated that there will be 130,000 households formed for each year. These households are rapidly concentrating in urban centers such as Manila and its environs, Cebu, large towns like Dagupan, Legaspi, Bacolod, Cagayan de Oro, Davao. The present inadequate housing calls for the investment of large resources not merely to re-settle the present households in more civilized dwellings but also to provide for the yearly increment of over 130,000 new households during the next five years.

The requirements from government must grow apace. In education alone every year there will be an average of 960 thousand children coming of school age. Even allowing for the normal attrition in the student population due to normal graduation or the dropping out of students for any number of reasons the total student population of the country will still continue to increase at the rate of 600 thousand each year.

Population increase and the formation of households mean additional people that will need sources of livelihood. In 1960 the number of people either employed or actively working for employment was 10.2 million. On the basis of present population growth this number will probably grow at the average rate of 360 thousand every year for the next five years. The number of people totally unemployed in 1960 was estimated at 730 thousand. If we are merely to prevent the unemployment rate from increasing, productive opportunities must be created for over 400 thousand people each year.

This country is blessed with bountiful natural resources with which it is possible not merely to sustain growing numbers but to provide them with an adequate, even somewhat comfortable living. Those natural resources must be developed and economically exploited. To do this, tremendous resources and prodigious efforts must be mobilized and applied wisely and judiciously.

This "Integrated Economic Development Program" outlines the targets and the means for a total national effort to improve the economic welfare of the nation, distribute the burdens and benefits of development more equitably, and lay a firm base and a beneficent superstructure for a stable and unrelenting growth of the economy's productive capacity.

Chapter II

THE PRESENT ECONOMIC SITUATION

The principal pledge of the President is to improve the economic welfare of the nation. This integrated economic program (for fiscal year ending 1963 to 1967) reduces that pledge to specific objectives and means.

Economic welfare is measurable in terms of the level of living of the nation as a whole and the individuals who compose it. Specifically, the quality of that living is measured by the level of consumption of private goods and services and of necessary government services.

The state of welfare. In comparison with the levels of living of the relatively wealthier countries, that in the Philippines is far from adequate.

The per capita Philippine consumption of superior foods like meat, eggs and milk, beans and vegetables is at a level far below healthy nutrition standards and much lower than that in wealthier countries. This is evident in the following table:

Philippine per Capita Consumption of Superior Nutrients, 1960

(Kgs. per capita)

Items	Philippine Consumption 1960	Philippine Nutrition Standard	United States	France	Brazil
Meat and poultry	13.99	33.13	88.00	44.6	42.2
Eggs and milk	15.61	28.40	248.39	79.9	75.9
Beans and vegetables	20.52	54.75	65.86	167.1	121.1
Fruits and nuts	36.77	89.06	88.05		

As a result, the Filipinos eat more than the prescribed amount of rice, which, compared with other foods provides a cheaper means of merely filling the human stomach. Thus, in 1960, average per capita consumption of cereals in the Philippines was 125.28 kilograms compared to a prescribed nutrition standard of 101.94 kilograms.

Within the nation, the distribution of welfare is far from satisfactory. This is indeed a nation of contrasts where a few regions and communities enjoy affluence in contrast to widespread poverty in others.

The survey of Philippine households undertaken by the PSSH in 1957 reveals some of the contrasts.

PHILIPPINES: *Comparative Regional per Capita Consumption Expenditures and Consumption of Selected Foods* [1]

Item	Metropolitan Manila	Middle Class Region	Lower Class Regions
1. Annual per capita consumption expenditures, 1957	₱1,055	₱350–₱400	₱180–₱280
2. Daily per Capita Intake of Selected Foods, 1957–58—			
Rice, grams	240	424	390
Root crop products, grams	11	6	71
Meat and poultry	45	23	15
Milk and milk products	74	24	15

The objectives of this integrated economic program must be translated into specific improvements in the over-all level of economic welfare and in its distribution. Improvement in this sense means that our production capacity must grow more rapidly than the growth of our population. It also means that those regions that have lagged behind in progress must be given special assistance to enable them to participate more fully in over-all national progress.

The Basis Of Past Economic Growth

The growth of the Philippine economy during the decade of the fifties, its departure from traditional patterns of consumption, investment and business behavior has been impressive. It is important, however, to look at the framework of economic opportunities and of laws and policies within which this transformation took place.

What gave this era its particular character were a series of governmental decisions embodied in administrative circulars and legislation. Of these the principal ones were first, Circular No. 20 of December 9, 1949 which imposed exchange controls in the country. Implied in this action was the decision of the government not to use devaluation as an instrument for correcting a persistent balance of payments deficit. It was decided then that the legal parity of ₱2.00 per dollar would be maintained. Second, the passage of the Tax Exemption Law, Republic Act No. 901 on June 30, 1953 which expanded the tax exemption privileges provided by Republic Act No. 35 to include all customs duties, compensating taxes, sales taxes

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SOURCES: Institute of Nutrition PSSH Family Income and Expenditure Survey, March 1957.

[1] Middle class regions consisted of the Ilocos Region, Cagayan Valley, Central Luzon, Southern Luzon and Western Visayas. Food intake in Central Luzon was used as representatives of the group. All the other regions constitute the lower class group and the food intake of Bicol Region was used to represent the group.

and internal revenue taxes including income tax. Third, the triumph of expansionary policies in 1954 as embodied in the passage of Republic Act No. 1000 which authorized a national government bond issue of one billion pesos for reconstruction and development and in the adoption of liberal credit policies by the Central Bank.

There were certain economic circumstances also which characterized the period.

First, the country's traditional export industries had just been restored to pre-war capacities. In the case, for example, of coconut, copra and sugar, the pre-war facilities were completely restored only about the beginning of the decade. This was largely true of the mining industry and of logging and lumber mills. In the case of abaca, the loss of the former Japanese plantations in the South has never been fully restored.

Second, the world market for copra, the principal export of the country, was extremely strong and stable and remained so all throughout the decade.

Third, at the beginning of the decade, there was hardly any manufacturing enterprise in the country. The imports of consumer goods constituted the main bulk of the country's purchases, abroad and these were brought in in finished forms. Textiles were our largest single item of import. With the exception of the textile mills of the National Development Company (NDC), there was no modern textile industry in the country to speak of.

Fourth, the country started with a high level of foreign exchange reserves.

Fifth, the Philippines was still collecting in the early part of the decade some war damage payments from the United States and a good bit of aid.

These five sets of economic factors made available to the country sources of economic growth which could be readily exploited without too much additional capital investments. The restoration of export capacity meant that as long as world demand for the country's traditional exports was sustained at a high level, domestic production could be increased readily with small applications of additional capital to meet the demand. In the field of manufacturing large domestic demand existed for many items. These were generally imported in finished form notwithstanding the fact that the final stages of finishing, fabricating and packaging involved simple technical processes and could be undertaken readily by domestic enterprises as long as adequate inducements existed.

The high level of foreign exchange reserves and the availability of war damage payments from the United States together with the sustained volume of world demand for the country's traditional exports made it possible to sustain the high level of importation.

The economic factors thus made available to the country during the decade of the fifties a large volume of commodities contributed by the restoration of domestic production facilities and a large capability to import. The Government policies on the other hand, created a climate which induced the population to use a large proportion of the available production and importation of the country for consumption and to apply a relatively small proportion to investments of a particular character. The most favored outlet for investments during the fifties was the establishment of light manufacturing enterprises producing consumer goods by simple processing or packaging of imported materials. These industries had some characteristics in common. They involved relatively small investments in fixed capital assets. The principal items of investment were materials inventories, largely of foreign origin. Relative to the amount of capital investment these businesses turned-over a large volume of production and sales.

What made enterprises of this character attractive were the two principal policies that created the investment climate of the period namely: the system of exchange controls that maintained the exchange rate at ₱2.00 per $1.00 and the tax exemption law which exempted new and necessary industries from import taxes and internal revenue levies.

It became relatively easy for entrepreneurs to launch enterprises of this type. For one thing, they were extremely profitable. There are in the structure of profits in an economy three components: first, profits originating from Government policies such as protective tariffs and the maintenance of an artificially low price for foreign exchange; second, profits from real economies of marketing, storage and distribution, and third, economies from processing and manufactures. Normally, enterprises look to the second and the third sources for their principal inducement. In the Philippines during the fifties, the first component became by far the most important of the sources of profit so-much-so that the grant of a dollar allocation became a guarantee of profitability. There were unfortunately many instances where real economics in processing and marketing were not present but so large was the profit on the dollar allocation, that a business enterprise could be uneconomical and still be profitable.

The financing requirements of each enterprise could be relatively modest and could be raised largely from bank borrowings. A small amount of family savings could be made to go a long way just so dollar allocations could be secured from the Central Bank. In an operation where the principal recurring operating cost is purchase of imports, bank financing through letters of credit and trust receipt facilities are readily available.

The situation opened up more avenues of investments than would have been feasible and desirable under more normal circumstances. Small uneconomic scale processing which would have been uneconomical under normal market situations became feasible in a situation where the principal source of profit was the profit from the dollar allocation. It became possible to overcrowd an industry to a degree which would ordinarily have forced less efficient firms into bankruptcy.

Over-all Growth Rates

The character of the period was manifested in some of the over-all statistics of economic growth during this era. Taking the period from 1950 to 1959 as a whole, gross domestic product, increased at a compound rate of 6.3 per cent per year while total population grew at about 3 per cent. The following sectors accounted for the growth.

1. The export sector sparked by the sustained high level of world demand. The mining sector grew at the rate of 9 per cent per annum during the period and the agricultural sector at the rate of about 3.9 per cent per annum.
2. Manufacturing showed the most rapid growth of 11% per annum.

Domestic production was augmented by substantial importation. Imports were financed by rising export receipts, by the in-flow of foreign capital largely in the form of re-invested earnings, substantial foreign donations and by a reduction in the country's international reserves.

The combination of growing domestic production and substantial imports increased the availability of goods and services in the economy. These were largely absorbed by consumption which increased at the rate of 3.3% per annum per capita. Investments were only increased on a per capita basis at the rate of 1.3% per year. During that period the country was only investing at the rate of ₱8.62 for every ₱100.00 worth of gross product available. The rapid growth in domestic production was achieved with relatively small investments of capital. During the decade, it took only ₱1.36 of investments to get each ₱1.00 increased in domestic product.

All these factors are unmistakable marks of the investment climate of that period: the cheap dollar policy, the tax exemption, the virgin field for investments in domestic processing and packaging of import substitutes, the large capabilities of the country to finance imports with export earnings, in-flow of foreign capital, foreign aid and out of the international reserves.

Recent Changes In Policies

In the last two years, fairly radical changes in policies have occurred. On April 25, 1960 the cheap dollar policy of the Central Bank came to a close. The policy had undergone several modifications before that date. But these modifications took somewhat less direct forms. Thus the exchange tax of 17% increased the exchange rate for most important transactions from ₱2.015 to ₱2.358. Barter made it possible for exporters of certain grades of commodities to appropriate a portion of the premium on foreign exchange. Finally, the margin fee which replaced the exchange tax has effectively raised the exchange rate.

On December 31, 1955, Executive Order No. 150 increased tariff duties on several commodities and on June 22, 1957, Congress passed the Revised Customs Code of the Philippines which also raised the duties on some lines of imports. This had the effect of raising the cost of imports. But it was not until April 25, 1960 that the Government took official cognizance of the fact that the rate of ₱2.00 per US $1.00 was unrealistic.

Many firms are now losing gradually the benefits of the tax exemption law. In its stead, the Basic Industries Act provides a more limited tax exemption for the machinery and equipment importation of "basic industries." Only import duties, special import taxes and other levies on importation are waived.

What this means is that over-all profits on foreign exchange will cease to be a source of inducement for investments. To some extent, the Basic Industries Act and the tariff code may provide specific inducements to particular types of enterprises. It is safe to conjecture, however, that more than at any time during the last ten years, business enterprises will have to rely for attractiveness on the fruits of economic efficiency in processing and in distribution.

Significance of the New Policies

Two conclusions follow from the premises:

1. The field for investment during the next ten years will be much narrower at the start because the tests of attractiveness and feasibility will be more rigorous.
2. The character of the investments will change. More basic developmental effort will be necessary.

Further development of mining, agriculture and forestry will involve more substantial investments in basic facilities—roads, irrigation and water control system, warehouses, heavy equipment for clearing and cultivating, pest control equipment, housing, etc. This is the result of bringing land under cultivation which is in less developed areas that must be exploited for settlement. The development of forestry will involve exploiting more remote timber stands. The expansion of mineral production will mean more extensive exploitation and the development of deposits in more remote places. Further progress in industrialization will mean the establishment of facilities for processing materials in a more raw state.

During the past ten years, the chief industries which were newly established, being devoted to the later stages of processing, assembly and packaging, had to be located in or around Manila, near the principal markets. In the coming years, the principal industries may be located near sources of cheap power or raw materials. Larger investments will be required in the country to set up new communities with all the facilities involved in building water systems, electric power generating and distribution plants, sewerage systems, housing, roads and communications facilities.

Further growth in the Philippine economy will thus involve larger average investments than in the past. The country will need to rely to a larger extent on external resources from foreign aid, institutional loans, and foreign investment.

To look at this picture in terms of the statistics of over-all economic performance, if from 1950 to 1959 the equivalent of ₱1.00 of additional output in the economy could be achieved by over-all investments in fixed assets and inventory of ₱1.36 in the coming years it will probably take between ₱2.50 and ₱3.00 of investment to achieve ₱1.00 of growth.

The other side of investment is saving. To try and double the rate of investment will mean that we have to increase the rate of savings in order to continue the growth of per capita product in this country.

Chapter III

SUMMARY OF THE PROGRAM

This economic program outlines in terms of broad orders of magnitudes the approximate targets that public and private sectors should try to achieve in the five years from fiscal year 1963 to 1967 if the Philippine population is to enjoy a continuous improvement in levels of living.

The targets are perhaps more indicative of directions rather than of absolute levels. They point up, however, the urgency of Philippine economic problems and the general priorities of required action.

In setting the targets for the next five fiscal years, certain basic realities of the current Philippine economic situation were recognized.

1. The country has fully exhausted the potentialities for growth offered by the complement of policies ruling over the decade of the 1950's. Over the last three years from 1958 to 1960, the growth rate of real gross national product has declined.
2. The impetus to investments which exchange controls, an exchange rate that overvalued the peso, and various tax incentives provided has worked itself out.
3. The country already enjoys to the full the export potential feasible under present exchange and trade policies. The weakening of copra prices has caused the country's export earnings to level off from the rather steep growth of the last ten years.
4. In the meantime, the Philippine population grows at a rate of 3.2 per cent per year, among the highest in the world. The country's requirements for consumer and capital goods grow. The international reserves have dropped to a precariously low level.

The very urgency of the situation has made it obvious that some drastic changes in monetary, fiscal and exchange policies are in the offing. Pending government action, speculation is the order of the day. Exporters are holding back negotiations of export sales. Importers are hastening to buy foreign exchange to build-up inventories of imported goods in anticipation of higher costs. Investors have for at least the past three years held off making long-range plans until the government policies became clearer and more stable.

The climate, far from being beneficent to the type of long-term saving and investment which our situation requires, is hostile to long-range planning and encourages short-term speculation.

Immediate government action is imperative *first* to establish immediately a new, stable base for business valuation and planning to remove the uncertainty that pervades the present economic atmosphere and *second* to set clear directions for over-all economic, monetary, fiscal and commercial policies and for government investment programs in order to generate a new dynamic for continued economic growth.

This integrated Economic Program is the President's blueprint for filling these two requirements.

Restoring Stability

The present speculative atmosphere in Philippine business springs from uncertainty with respect to—

1. The foreign exchange policies of the Government particularly (*a*) the future level of the Central Bank's and Commercial Bank's buying and selling rates for foreign exchange and (*b*) the system of foreign exchange distribution, to what extent decisions will be transferred to a true free market.
2. The directions of Government commercial policy: what will be the instruments of protection and how these shall be used.
3. The Government's new attitudes and policies that will govern foreign investments in the Philippines.
4. How the Government will reconcile the attraction of foreign investors with the need of Filipino businessmen for initial protection.

With the objective of immediately stabilizing the economy, and apropos of the four principal sources of instability, this program embodies—

1. A program of exchange rate adjustment and unification and a procedure for orderly decontrol to transfer the allocation of foreign exchange to a genuinely free market;
2. A set of complementary measures to protect Philippine and Filipino industry and agriculture from undue foreign competition at their "infant" stages; and

3. A set of policies and measures to provide guarantees to foreign investors in particular lines of investments, principally mineral exploration and heavy industries such as iron and steel and basic chemicals, together with an official declaration of preference for joint international business ventures with substantial Filipino capital and management participation.

A Five-Year Program for Economic Growth

The program covers anticipated national requirements and resources for the fiscal years 1963 to 1967.*

It takes into consideration the requirement of a Philippine population increasing at the rate of 3.2 per cent per annum now, and at an expected rate of 3.3 per cent per annum by the middle of 1967. Over the planning period it is expected that there will be one million more people every year and net additions to the nation's labor force will be in the magnitude of 360 thousand yearly.

In order to meet the requirements and to improve over-all levels of living, gross domestic product needs to grow over the five-year period, at a compound rate of 6 per cent. The annual growth rate must rise from 5.5 per cent between 1962 and 1963 up to 7.0 per cent from 1966 to 1967.

The targets are feasible provided—

1. An average of 16.1 per cent of gross domestic product is channeled into gross domestic investments during the five fiscal years;
2. Gross domestic savings including reinvestments of foreign earnings in the Philippines reach 13 per cent of gross domestic product in FY 1963, 13.8 per cent in 1964, 14.6 per cent in 1965, 15.4 per cent in 1966, and 16.0 per cent in 1967;
3. There is a total net inflow of new foreign capital into the country of roughly U.S. $860 million during the five-year period; and
4. The export earnings of the country total U.S. $3.7 billion during the period or an average of $740 million annually.

The rate of gross domestic investments is intended to mobilize new capital formation of ₱12.7 billion over the five fiscal years. This amount has been allocated on the basis of a first approximation of sectoral and regional priorities that give priority to the production of import substitutes such as integrated iron and steel, basic chemicals, pulping plants, expansion of agricultural food production and processing and the development of the cattle and dairy industries.

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* The Philippine fiscal year extends from July 1st to June 30th.

The Government's share in the total investment target was placed at ₱2.7 billion or 22 per cent of the total target of ₱12.7 billion. The public investment program includes principally ₱1.3 billion for water supply, roads, highways and irrigation and ₱1.1 billion for power development, expansion of railroad units and of telecommunications.

In these magnitudes, the total program can be financed entirely from non-inflationary sources: from domestic savings and foreign loans and investments. In addition to the normal growth of domestic saving flowing through such financial intermediaries as the commercial banks, the Government Service Insurance System, the Social Security System, the Postal Savings banks and the private insurance companies, the program contemplates the establishment of rural savings institutions and cooperative banks to encourage systematic savings out of current incomes in the farm areas.

The anticipated government revenues during the program period are expected to cover current expenditures and a little savings to finance a portion of the public investment program. The balance will be financed out of bond issues sold at *competitive money rates* to insurance companies, pension funds, banks and other private investors.

Perhaps the most important feature of the present program is the contemplated reorganization of public Administration to improve the machinery for the formulation and implementation of consistent economic plans and fiscal and monetary policies, to achieve maximum coordination among the various departments of the Executive Branch of Government in the pursuit of economic objectives, and to attain more rigorous control over government budgetary and developmental expenditures.

The responsibilities of each department of the Government, of each agency and corporation shall be clearly defined in regard to this economic program to the end that every power, facility and office is mobilized to achieve the goals set forth therein.

The exchange rate adjustment and the stabilization program are expected of themselves to create a fundamental climate favorable to investments in more basic industries. The role of Government will be to provide direct assistance where needed, remove bottlenecks, and establish required social overhead facilities.

Chapter IV

THE OVER-ALL TARGETS OF THE PROGRAM

(FY Ending 1963-1967)

The goals of the program are simply to insure that domestic production, augmented by imports, shall be adequate to provide for the needs of our growing population. Fortunately, the resources that can be mobilized and used judiciously are tremendous. The program envisions that such judicious utilization of these resources will ensure that the pattern and structure of our production will be such that the maximum feasible amount is produced for both domestic and export needs.

Over-all Requirements

Over the five-year period of the program, it is expected that domestic production can be increased at an average annual rate of about 6 per cent, starting from its present rate (1956 to 1960) of about five-and-one-half per cent to about 7 per cent by the end of the program period. By mid-1967, domestic production shall then have increased by 50.9 per cent of its 1960 level. The gross domestic product by that time will then amount to about ₱17,841 million (at 1960 prices), compared to ₱11,822 million in 1960.

Imports of producer and consumer goods will need to grow by 45 per cent to a level of ₱1,906 million (at 1960 prices) by the end of fiscal year 1967. Private consumption expenditures will increase by 45.2 per cent to a level of ₱13,512 million (at 1960 prices) in contrast to ₱9,304 million in 1960.

The Investment Targets

For the production targets to be met, the country's production facilities must be augmented by a total equivalent of ₱12,053 million of gross fixed investments, or an annual average of ₱2,410 million. These investments must be programmed and carefully allocated to the various sectors of the economy so that bottlenecks to production are neither created nor allowed to persist. Inasmuch as sectors of the economy are inter-related in the sense that they purchase one another's produce, the program for a balanced growth requires that production capacities in each sector must increase in harmony with those of the others. Thus, to attain the target increase in domestic product, the total requirements for fixed investments may be broken down into the various sectors as follows:

Gross Fixed Investment Requirements by Sectors, FY 1963–1967

Sector	Total Fixed Investments for the period (Million pesos at 1960 Prices)	Per cent Distribution
Agriculture	809	6.71
Mining	399	3.31
Manufacturing	3,929	32.57
Construction (including Public Works)	2,429	20.15
Transportation and Communication	4,000	33.19
All Other Sectors	490	4.07
Total	12,053	100.00

Of the total fixed investment requirements for the five-year period of the program, investments in mining and manufacturing represent an increase in the proportion to total fixed investments from 27 per cent in the past period from 1956 to 1959 to about 36 per cent during the program period. This increase underlines the great need for basic industries which will supply existing light industries with raw materials which are presently imported from abroad. These basic industries include: basic metals and products, basic chemicals, pulp and paper, integrated textile mills, and other.

The program also requires fairly large investments in basic facilities such as roads and irrigation facilities, and in transportation and communication. To a large extent, the expansion of basic industries hinges on the investment program for basic facilities, since these industries may require dispersal to sources of raw materials.

The investment requirements for basic facilities will, in turn, rely heavily on government sources. Thus, of the total fixed investment requirements, the program envisions that it is feasible for the government to put up directly ₱2,809 million over the period for social overhead facilities, hydroelectric power, irrigation systems, harbor facilities, new roads, development of land, forest and mineral resources, etc. These investments will amount to an annual average of ₱562 million.

The program anticipates that, with the creation of the proper investment climate, the balance of fixed investment requirements amounting to ₱9,244 million (at 1960 prices), plus net additions to inventory of ₱604 million, can be adequately generated by the private sector.

On the basis of these investment targets, it is estimated that the national income (at factor cost) that will be generated from each sector will be as follows:

National Income at Factor Cost by Industrial Origin, FY 1963–1967
(Millions of pesos at 1960 prices)

Sector	FY 1960	FY 1963	FY 1964	FY 1965	FY 1966	
Agriculture	3,472	3,702	3,835	3,973	4,116	4,257
Industry	1,970	2,542	2,819	3,126	3,467	3,856
Construction	324	408	450	498	550	607
Basic facilities, trade and services	4,488	5,433	5,604	5,809	6,067	6,448
National Income	10,254	12,085	12,708	13,406	14,209	15,162

The Financing Gross of Domestic Investments

Including net additions to inventories, the total gross domestic investment requirements of the program over the five-year period amount to ₱12,693 million, or an annual average of ₱2,539 million (at 1960 prices).

Of the total investment requirements, gross domestic savings (including reinvested earnings of foreign enterprises) are expected to finance ₱11,385 million, or about 89 per cent. This means that the rate of gross domestic savings must gradually be increased from the present level of 12.7 per cent of gross income to about 16 per cent by the end of the program period. It is expected that net foreign investment can provide the balance of ₱1,408 million (at 1960 prices), or 11 per cent of gross domestic investments. This amount of foreign investment is deemed feasible and is well within the capacity of the economy to service and repay.

The Foreign Exchange Budget

To sustain the foreign exchange requirements of the program, gains from the country's foreign trade need to be maximized. Export incomes must be increased through volume expansions and the preservation of our terms-of-trade. With appropriate government support, it should be feasible to export to neighboring countries of our light manufacturing: textiles, shoes, pharmaceuticals, even cement and wall boards. Paying greater attention to the preservation of our terms-of-trade, we may expect substantial foreign exchange earnings from our traditional crops. Over fiscal years 1963 to 1967, our total export receipts from these crops are anticipated to be as follows:

Coconut Products	$1,042 Mn.
Sugar	668
Logs and Lumber	457
Abaca	209
Copper concentrates	96
Chromite Ore	85
Iron Ore	58
Sub-total	$2,615
Other Exports	329
Total Commodity Exports	$2,944

With the expected earnings from these commodities, as well as from receipts from U.S. Government expenditures, other services, and the anticipated inflow of foreign capital through donations, loans and private investments, it is believed feasible, within the program period, to generate sufficient capacity for external payments of imports of goods and services and the servicing of foreign investment, as well as to effect an annual addition to the international reserves of $50 million. The total budget for foreign exchange is summarized in the following table, the details of which are discussed in Chapter VII.

PHILIPPINES: *Total Capacity for External Payments and Capacity to Import*
(Million U. S. Dollars)

	FISCAL YEARS				
	1963	1964	1965	1966	1967
Exports	702	721	739	757	775
Terms-of-trade effect	—	—	—	—	—
Inflow of foreign capital[1]	158	188	214	246	296
Total payments capacity	860	909	953	1,003	1,071
Outflow of capital	26	33	33	32	24
Remittances of profits	44	44	44	44	44
Servicing of foreign investment and Stabilization Loan	7	11	16	25	38
Sub-total	783	821	860	902	965
Donations from abroad	38	38	38	38	38
Total capacity to import	821	859	898	940	1,003
Import requirements	771	809	848	890	953

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[1] Exclusive of reinvested earnings.

Employment Effects

By 1967, a little less than 11,620 thousand jobs will have been created. Approximately 94.5 per cent of the total number of persons offering their services for wages or for profit by 1967 will be employed, fully or partially. After making adjustments to the equivalent number of persons fully employed (that is, working 40 or more hours per week) this percentage may be reduced to about 88 per cent. The industrial distribution of the employed labor force by 1967 reflects significant structural changes in the pattern of production:

Industry	Per Cent Distribution of Employed Labor Force	
	1959	1967
Agriculture	61.7	48.5
Industry (Mining and manufacturing)	12.0	20.2
Construction	3.1	3.0
Facilities, trade, and services	23.2	28.3
Total number of employed, in thousands	8,959	11,617

While employment in agriculture will expand in absolute terms, the rate of growth will be considerably limited. The largest expansion in the number of jobs will be provided by the manufacturing and services sectors.

Chapter V

MONETARY AND FINANCIAL PROGRAM

The over-all economic program calls for an increase in the rate of investments of from 12.8 per cent of gross domestic product during the period from 1956 to 1960 to 16.1 per cent from Fiscal Years 1963 to 1967.

In absolute magnitudes the stock of new capital in the country over the five-year period will need to increase by ₱12,700 million (at present prices), roughly broken down by categories as follows:

Land and resources improvements (including mining and forestry)	₱4,671.9
Plant and other business construction	607.8
Machinery and equipment	3,430.5
Residential construction	750.0
Government public works (including power development)	2,628.8
Increment in stocks	604.0
Total	₱12,693.0

To finance these investments, the current domestic savings rate must be raised to 14.8 percent of gross national income over the period Fiscal Years 1963 to 1967. Domestic savings must finance ₱11,500 million at present prices or 90.6 per cent of the total investment requirements. The balance will be financed by external sources. Reparations will provide U. S. $375 million over Fiscal Years 1963–1967. Reinvestment of foreign earnings plus new inflow of private foreign investments may be anticipated in an amount of U. S. $370 million. Finally foreign loans from the World Bank, the Credit Anstalt and Suppliers' Credits for equipment and under U. S. Public Law 480 will be sought in the amount of U. S. $470 million.

In order to mobilize these resources and facilities their application to projects of high priority in the program, the country's monetary and financial institutions must undergo some reform in policies and structure to suit the task. Such reorganization shall have three (3) principal objectives:

1. To prevent bottlenecks from developing in production and capital formation which may arise particularly from an inadequacy of financial resources or from the inaccessibility of these resources to worthy economic projects.

2. To develop new institutions, instruments and procedures to provide inducements for increased savings out of current income and for the channeling of these savings to economic projects of high priority.
3. To provide channels to facilitate the entry of foreign capital under conditions which will give adequate security of principal and attractive incomes to such capital.

Mobilizing Domestic Savings

Over the five years from Fiscal Years 1963 to 1967, a total of ₱11,500 million must be mobilized in the form of domestic savings out of total gross national income of ₱78,200 million. The principal intermediaries for the mobilization of such savings will be:

1. Investment banks and other institutions involved in channeling personal savings into equity investments.
2. Insurance companies that channel premium collections into corporate stock purchases and long-term loans for plant building and home construction.
3. Savings banks and other mortgage loan institutions.
4. The Government Service Insurance System, the Social Security System and the Development Bank of the Philippines.
5. Commercial banks and other short-term loan institutions that finance inventory.

The pattern of capital formation shows a predominance of fixed and long-term assets which must be financed with long-term savings of the nation in the form of stock purchases, long-term mortgage loans, long-term government bonds and government savings from current operations.

The priorities of the financial program in respect of these institutions will be:

1. To provide reasonable government assistance to these institutions in their efforts to introduce plans which encourage systematic savings from the public in general out of current incomes.
2. To enlist the full support of these institutions for the purpose of achieving common priorities in Loan and Investment Programs and to provide assistance and inducements in order to facilitate the channeling of investible funds into projects considered most important to this integrated Economic Development program.

Establishment of Private Development Bank

It is proposed to establish a private Development Bank with total initial resources of ₱60,000,000.00. The capital of this private Development Bank will be raised as follows:

Domestic subscriptions		₱15,000,000.00
of which, private	₱5,000,000.00	
government	10,000,000.00	
Subscriptions to be sought from international institutions		45,000,000.00
Total Resources		₱60,000,000.00

The government's participation will be in the form of long-term loans for fifty years, at a nominal interest rate and with the most junior claim on the assets of the bank in the event of liquidation. This effectively leaves the control of the Development Bank in the hands of the private subscribers. With the offer of this highly preferential government loan in the basis of ₱2.00 for every ₱1.00 raised by private subscribers, it is anticipated that the ₱5,000,000.00 of the private subscriptions can be readily raised from insurance companies, private financial companies, and individuals. International financial institutions such as the World Bank have, in the past, given loans for the organization of private Development Banks of this type. It is expected that these institutions will be willing to provide loans guaranteed by the national government to the extent of three (3) times the domestic capital raised.

The private Development Bank will be privately managed and will perform essential investment banking functions to provide the initial risk capital and long-term loans for large-scale investment projects in the integrated Economic Development Program. It will be of tremendous assistance to promoters of industrial, mining and agricultural ventures in the country.

Inducements for Personal Savings

All the powers at present available to induce savings out of current income shall be put to effective use under this program. The Central Bank of the Philippines shall be requested to review the feasibility of raising the interest rates paid by Commercial and Savings Banks on savings and time deposits, push with greater vigor the establishment of local community cooperative banks and savings and loan associations encourage these institutions to offer more attractive inducements for systematic savings plans.

Among the objectives of the program are the expansion of the facilities and resources of existing financial intermediaries, and to establish new ones designed to induce habits of thrift in and mobilize the savings of the rural communities.

The consolidated net additional resources of the major financial intermediaries are expected to grow annually during the five-year period in the following amounts.

FINANCIAL INTERMEDIARIES IN THE PHILIPPINES
Projected Annual Increments in Resources
Fiscal Year 1963–1967

(In Million Pesos)

	1963	1964	1965	1966	1967
Commercial Banks, Rural Banks and National Cooperative Bank[a]	171	194	221	251	284
Insurance Companies	402	440	479	519	562
Private	183	200	218	238	260
GSIS	170	190	210	230	250
SSS[b]	49	50	51	51	52
Development Bank of the Philippines	25	27	29	31	32
DBP Proper	22	23	25	27	28
Postal Savings deposits	3	4	4	4	4
Total Annual Increments	598	661	729	801	878

These institutions will thus mobilize a total of ₱3,667 million in domestic savings during the period, or an average of ₱733 million per year.

The government will continue to study legislation to remove double taxation of income from corporate investments and to suspend the capital gains tax. At the same time, it may be feasible to have as allowable deductions from the income tax base premium payments on insurance as well as recurring payments for systematic savings and investment plans.

More Judicious Allocation of the Nation's Investible Funds

Running parallel to the campaign for increasing the current rate of domestic savings in the above-standard regions, their financial organization must be reorganized in order to insure the optimum use of savings for productive investments. The first step proposed to be undertaken is to budget more rigorously the investible funds placed in the control of government financial institutions. To this end, two steps are envisioned:

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[a] Net of Central Bank Credit.
[b] Projections of the Social Security System.

First, to remove from the Social Security System and GSIS all lending functions and to channel their investible funds instead to the Development Bank of the Philippines.

Second, to bring the policies of the Development Bank of the Philippines, the Philippine National Bank, the National Cooperative Bank and the ACCFA into line with the overall targets and priorities established by this Economic Development Program. To accomplish this, it is proposed to have an inter-corporate Loans and Investments Council to establish policies for these institutions with a view to their maximum coordination. The Council shall be under the chairmanship of the Central Bank and the President of the PNB, the Chairman of the DBP and the Secretary of Commerce and Industry shall be members. The regulatory powers of the Central Bank of the Philippines over the commercial banking system of the Philippines and over the savings and mortgage banks shall continue to be used as far as feasible to guide the allocation of the loanable funds of these institutions into the most economically productive lines.

The facilities of the Office of the Insurance Commissioner also shall be enlisted for the purpose of seeking maximum cooperation from the insurance companies in the achievement of the objectives of this economic program.

Facilitating the Inflow of Foreign Capital

In anticipation of foreign investments and loans from abroad, the government proposes to provide facilities for private business that will enable them to meet the requirements of foreign investors and creditors in a manner that will redound to the greatest advantage of the country.

It is intended to enlist the assistance of the Department of Foreign Affairs and its foreign missions in order to provide Philippine investors with the maximum information on policies, statutes, rules and regulations covering loan facilities of international institutions and foreign countries' lending institutions. The Philippines' foreign missions abroad shall be organized more satisfactorily to assist businessmen to negotiate with foreign creditors and investors in order to secure for them and therefore, for the country, the best terms feasible. (Refer to Chapter X)

On the domestic side, it is proposed to establish a government office that will assist businessmen in preparing project proposals to meet the requirements of foreign creditors and investors. (Refer to Chapter IX)

Likewise, the necessary government guarantees usually required by foreign lending institutions shall be established through government financial institutions at costs which will not necessarily burden investment projects with too heavy a financing charge.

Where it will be considered advantageous, the Department of Foreign Affairs will initiate negotiations for investment and tax treaties with capital exporting countries for the purpose of preventing double taxation of profits and interest remittances.

Immediate steps shall be taken to establish the terms and procedures for the U. S. $250 million from Japanese banks as provided for in the Reparations Agreement with Japan.

Chapter VI

Fiscal Policy and the Government Sector

The fiscal program of the National Government is designed to provide the essential government services needed by the expanding population and to construct and maintain basic facilities which serve as foundation for economic activities of the foreign sector. The program has been drawn to improve the re-distribution feature of the tax machinery with purposive regional development to ensure the most widespread sharing on the fruits of progress by the population. The financial resources to carry out the program has been constrained to the feasible non-inflationary sources of finance.

The annual current operating expenditures of the National Government has been raised from around ₱900 million FY 1960–FY 1961 to an average ₱1,200 million during the program period FY 1963–FY 1967. This level of current expenditures is necessary to supply the public service needed by the growing population, services such as the provision of education facilities to the 600 thousand new students annually. Welfare services such as public health and medical care shall also have to be expanded to meet the needs of the growing population which increasingly concentrate in urban areas.

This level of current expenditures shall be met by current receipts of the Government from taxes and properties which, under the present rates and efficiency of the tax machinery, are expected to aggregate ₱6 billion during the five-year program period.

NATIONAL GOVERNMENT: *Fiscal Resources and Expenditures*
Fiscal Year 1963–67[4]

Item	1963	1964	1965	1966	1967	Sum
1. Outlays	1,629	1,723	1,882	2,024	2,157	9,415
2. Current Outlays	1,077	1,138	1,197	1,268	1,329	6,009
3. Debt Service	98	103	118	131	146	596
4. Capital Outlays	454	482	567	625	682	2,810
5. Original Budget	220	234	275	303	331	1,363
6. Additional	234	248	292	322	351	1,447
7. Resources	1,629	1,723	1,882	2,024	2,157	9,415
8. Reparations and Foreign Loan	85	87	63	50	50	335
9. Bond	75	64	60	50	30	279
10. Current Receipts	1,469	1,572	1,759	1,924	2,077	8,801
11. Present Rates	1,055	1,124	1,200	1,282	1,385	6,046
12. Direct Taxes	268	296	327	360	398	1,649
13. Indirect Taxes	675	710	747	788	844	3,764
14. Property Income	112	118	126	134	143	633
15. Others	414	448	559	642	692	2,755

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[4] Items (1) to (5) (8) and (9) were obtained from the Budget Commission estimates by providing for constant 1960 prices. Item (6) was derived from the government gross investment required to support the Program. Items (12) to (14) were independently estimated and Item (15) constituted the residual item.

The balance between current expenditures and current receipts, at present tax rates and present efficiency of the tax machinery, allows the Government to put more vigor to its investment program. The program sets investment targets averaging ₱560 million annually during the five-year program period, a substantial increase over the ₱220 million level of Fiscal Year 1960 and Fiscal Year 1961. Thus, the proportion of investment outlays shall increase from 18.7 per cent of Fiscal Year 1960 and Fiscal Year 1961 total government outlays to 31.6 per cent by Fiscal Year 1963 if the targets shall be achieved.

The target for gross public investment has been set at ₱2,810 million for the five-year program period Fiscal Year 1963–Fiscal Year 1967. The investment program includes principally ₱1.3 billion for roads, highways, irrigation and water supply and ₱1.1 billion for power development, extension of railroad lines and expansion of telecommunication facilities.

One-half of the investment program is expected to be financed by saving from current operations, depreciation and the additional government revenue engendered by the upward revision of the exchange rate. Around ₱600 million has been scheduled by the Budget Commission to originate from reparations, foreign loans, and domestic bond issues. The remaining ₱1,170 million shall have to be raised by improvement in direct tax revenues, through either or both an improvement in efficiency or substitution of administratively more efficient methods of taxation, and other sources such as more official foreign loans.

NATIONAL GOVERNMENT: *Capital Budget, Fiscal Year 1963–67*

(Millions of pesos at 1960 prices)

Item	Fiscal Years 1963–67
Gross Public Investment	2,810
Financing:	
Savings from current revenues at present rates	40
Additional revenue from change in exchange rate	500
Depreciation	500
Reparations, foreign loans and bond issues	600
Additional direct tax revenue	500
Other sources	670

Vigorous attempts to increase the efficiency of tax collection shall be undertaken along two fronts: The President will take direct personal and official interest in the systematic improvement of the Department of Finance which has the main responsibility of tax administration. On the other hand, the government shall continue to pursue its campaign for tax consciousness in an atmosphere of greater dignity in the public service.

The government shall also pursue more intensive research work on the tax structure from the point of view of economic and administrative efficiency. These shall serve as bases in proposing to Congress, when necessary, measures that shall increase the capacity of the Government in performing its role in the economic development program.

Chapter VII

THE FOREIGN EXCHANGE PROGRAM

The integrated economic program is designed to raise adequate foreign exchange resources (*a*) to meet the import requirements of the nation for the next 6 years, (*b*) to honor all the foreign exchange liabilities of the country including investment remittances, interest and amortization on foreign loans and repatriation of capital, and (*c*) to generate an increase in the international reserves that will provide a fund adequate to stabilize the international value of the peso under the system of de-control.

The integrated economic program calls for an aggregate importation of consumer and capital goods and various services amounting to a total of 4,271 million U.S. dollars during the five-year period from fiscal year 1963–1967 compared with the corresponding figure of 3,359 million U. S. dollars from fiscal years 1956–1960.

Together with foreign exchange disbursements for invisible items, Philippine government expenditures abroad, investment remittances to service existing foreign exchange liabilities and amortization of existing foreign loans, the total foreign exchange requirements of the program come to an average of 930 million U. S. dollars annually from the period (fiscal years) 1963 to 1967, or 4,640 million U. S. dollars for the entire period.

The anticipated regular foreign exchange receipts of the country, exclusive of special loans and grants-in-aid to be negotiated, come to an average of 740 million U. S. dollars annually or a total of 3,960 million U. S. dollars for the 5-year period.

The balance of 190 million U. S. dollars per annum will be sought from international financial institutions, the U. S. government, Japan and possibly Germany. It is anticipated that it will be possible to raise a total of 950 million U. S. dollars during the 5-year period from these various sources. The excess of loans and external assistance to be negotiated over the actual annual requirements is intended to be added to the foreign exchange reserves of the country in order to provide a stabilization fund to support the exchange rate under the decontrol program.

The Immediate Foreign Exchange Problem

The Philippines faces an immediate balance of payments problem the magnitudes of which are set forth in the following table:

Projected Foreign Exchange Position
Calendar Year 1962
(Million U.S. Dollars)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Whole Year
Beginning Reserves	$103.2	13.5	27.1	15.0	103.2
Expected Receipts	172.4	209.3	191.5	179.1	752.3
Expected Disbursements	262.1	195.7	203.6	210.5	871.9
Surplus (Deficits)	(89.7)	13.6	(12.1)	(31.4)	(119.6)
Ending Reserves	13.5	27.1	15.0	(16.4)	(16.4)

If no new sources of financing are arranged, by the end of March this year, the country's international reserves will be negative.

It is a matter of urgency to negotiate foreign loans in order to meet the immediate needs and to provide a stabilization fund for the contemplated decontrol program.

The Decontrol Program

The decontrol program in essence is as follows:

A. Exchange Rate:

The par value for the Philippine peso, agreed with the Fund and stated in Article 11 of the Central Bank Charter, shall apply only to 20% of the exchange proceeds from exports. All other exchange transactions take place in a free exchange market with freely fluctuating rate.

B. Administration of Exchange Program:

Exchange will be bought and sold only at authorized institutions (banks and exchange dealers) independently of the Central Bank but the Central Bank intervenes in the free market to avoid excessive variations arising from temporary factors. The Committee of Monetary Stabilization Fund will be established for this function.

C. Imports and Imports Payments:

Imports will not be subject to license but will be subject to an advance deposit in the Central Bank. These advance deposits vary according to the category and essentiality of the merchandise.

D. Payments for Invisibles:

Authorized dealers may sell exchange to cover payments for all invisibles.

E. Exports and Export Proceeds:

(1) All goods may, in principle, be exported freely; however, some items are prohibited (strategic goods to control export to communist countries, goods in short supply in the domestic market).

Or, are subject to quota, and in order to enforce these requirements and to ensure the repatriation of export proceeds, all exports must be registered with the Export Department of the Central Bank (or some agencies of the Government). Barter exports and exports under processing contracts require specific licenses from the Producers Incentives Board.

(2) The exporters are, however, required to sell to the Central Bank 20 per cent of their total proceeds at par value. Eighty per cent of such foreign exchange will be sold at the free market through an authorized dealer.

(3) The proceeds of exports must be received in currencies prescribed to form part of the international reserve (U.S. dollars, etc.). Within a period of 90 days from date of shipment or within such period as may in special cases be established, exporters must repatriate in instruments of international exchange the total value of their exports and must liquidate this value within 10 days from its repatriation through an authorized agent. Payments for exports on a cash, collection or consignment basis must be arranged through an authorized agent, which must specifically contract with the exporter to buy the exchange proceeds. The bank issues a certificate that payment has been made or arranged in an approved manner, to enable clearance of the exports through customs.

F. Proceeds from Invisibles:

Exchange derived from invisibles must be sold at the free market rate within ten days of receipt.

G. Capital:

Inflow or outflow of foreign investment capital repatriation and investment remittances of profits will take place at the free market rate.

The Stabilization Fund

With a stabilization fund of 300 million U.S. dollars to be used by the Central Bank to support and stabilize the free exchange rate at the desired level, the decontrol program as described may be implemented with confidence. In order to achieve this, special foreign exchange financing needs to be negotiated that will generate a net inflow of foreign exchange in the following amounts during the current calendar year:

First quarter, 1962	U.S. $254[5] million dollars
Second quarter	40
Third quarter	41
Fourth quarter	40[6]
Total for 1962	U.S. $375

Sources of Special Financing

The special financing embodied in this program has already been secured in part by the Special Presidential Mission to the United States. To date, we have secured the following firm commitments totalling nearly $300 million:

International Monetary Fund Drawing	$28.30	M
Federal Reserve Loan against Gold	23.25	M
Refinancing by Private Banks	84.80	M
Stand-by Financing from Private Banks	82.00	M
Agency for International Development (AID)	50.00	M
Export-Import Bank	30.00	M
TOTAL	$298.35	

Moreover, further drawings, amounting to about $37 million or up to $55 million are expected from the IMF after the Article XIV consultations which will be held in Manila starting next week (January 25, 1962). The State Department has also committed itself to provide, thru the U.S. Treasury, assistance from the Stabilization Fund in association with these IMF arrangements, without mentioning any definite figure. There is likewise forthcoming $73 million as additional war damage payments.

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[5] Excludes extension of short term loan of $55.0 millions: $30 million payable in second and $25 million payable in the third quarter.

[6] Excludes $73.0 million of U.S. War Damage payments which may be received this year.

In addition, we are negotiating for commodity accommodations under U.S. Public Law 480 and/or commodity loans from the Export-Import Bank of Washington in the following amounts:

Cotton	47.0 million U.S. dollars
Wheat	22.5 million U.S. dollars
Non-fat dry milk	7.5 million U.S. dollars
Evaporated milk	12.0 million U.S. dollars
Others	4.7 million U.S. dollars
TOTAL	93.7 million U.S. dollars

Finally, we shall open negotiations for project loans from foreign financing institutions such as the *Creditanstalt* of West Germany, the Export-Import Bank of Japan, and Japanese Commercial in amounts still to be determined.

Taken together, all these sources of financing should generate over $400 million.

The Five-Year Foreign Exchange Program

Exports of goods and services are expected to yield 3,700 million U.S. dollars in the five years FY 1963–67, predicted on evidenced capacity of the economy to produce coupled with prospective progress in the world economy and on the assumption that U.S. quota for Philippine sugar in 1960 shall be maintained at subsidy prices. These receipts, however, can finance only 86 per cent of the importation required for the attainment of the goals in domestic production. Current trade accounts are thus anticipated to show a cumulative U.S. dollar deficit of 580 million over the five years Fiscal Year 1963 to Fiscal Year 1967.

In addition to this current deficit, the economy shall also have to service financial obligations in the aggregate amount of 150 million U.S. dollars over the five-year period. If the economy shall also build up international reserves to be capable of maintaining stable exchange rate independently of borrowed stabilization funds, foreign investments amounting to 1,100 million U.S. dollars over the five-year period shall be required. Alternatively, export receipts shall be raised further by concerted export promotion effort, especially in the field of light manufactures.

Foreign Exchange Budget, Calendar Year 1962

($ Million)

Item	Whole Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Exports	696.5	158.4	195.4	177.5	165.2
Imports	753.0	175.6	184.9	192.8	199.7
Balance of Current Trade Accounts	(56.5)	(17.2)	10.5	(15.3)	(34.5)
Donations	55.8	14.0	13.9	14.0	13.9
Current Accounts	(0.7)	(3.2)	24.4	(1.3)	(20.6)
Short-term Capital Movements	(55.0)	(55.0)	———	———	———
Long-term Capital Movements	(63.9)	(31.5)	(10.8)	(10.8)	(10.8)
Surplus (Deficit)	(119.6)	(89.7)	13.6	(12.1)	(31.4)
Financing	374.3	254.0	40.0	40.3	39.5
Foreign Investment—Public Law 480	93.7	23.0	24.0	23.2	23.5
Project Loans	65.6	16.0	16.0	17.6	16.0
Stabilization Loan	215.0	215.0	———	———	———
Surplus	255.7	164.3	54.6	28.7	8.1
International Reserves, cumulative (end of period)—Reserves of $103.2 at start	———	267.5	322.1	350.8	358.9

Chapter VIII

FOREIGN EXCHANGE RECEIPTS: PROSPECTS

The economic development program depends to a significant extent on the availability of foreign exchange with which to pay for the imported goods required for consumption, production and investments. For this purpose, an estimate of the prospective foreign exchange earnings is attempted to yield the orders of magnitude of the constraint that this resource imposes on the program and identify the areas of domestic policy actions which would maximize the volume of this resource.

The estimation procedure consists of four stages: Firstly, aggregate export receipts are projected over the program period on the basis of 1947–1960 trend. Secondly, the feasibility of attaining these trend estimates is examined with reference to past performances of the foreign sector of the economy, and past developments in prices of the country's principal export products. Thirdly, the estimates are analyzed in the light of prospective developments in the world market and in the domestic economy. Fourthly, non-export receipt items are projected on the basis of current developments. These four stages provide an estimate of the volume of foreign exchange earnings that shall be available for importation during the program period. Finally, the areas of domestic policy actions which would likely support and enhance the foreign earnings are identified.

I

The annual value of aggregate export receipts fluctuated over a wide range of —11.0 per cent and +29.5 per cent during the period 1949–60. The wide variations preclude fitting a trend line on the annual data and suggested smoothening by averaging. Thus, successive three-year annual averages were computed starting with 1947–49 and ending with 1958–60. The data were in this process reduced to five three-year average figures, three years apart. The range of annual variation on the positive side was defined by changes during the periods 1950–51 when the effects of the Korean War were most pronounced. To improve on the variation in the data, the price effect of the Korean War was removed from the 1951 figure. Finally, the data for 1959 and 1960 were adjusted to include barter exports for consistency and in view of the reported full decontrol during the program period.

The modified three-year average annual receipts were plotted on a graph and the scatter diagram showed a remarkable straight line trend. A straight line trend was thus fitted to the data by the method of least squares. The trend values corresponded closely with the actual data, deviating within plus and minus 1.5 per cent of the actual data. The trend line was then projected through 1966 and the estimated export receipts representing an annual increment of $18.28 million was obtained:

	1962	1963	1964	1965	1966
Estimated Export Receipts, $ Million	543.0	561.2	579.5	597.8	616.1

II

The feasibility of attaining these estimated foreign exchange receipts from exports was tested on the basis of historical data on volumes and prices of the export products. For this purpose, the annual volumes and annual average prices of fifteen principal export products, which accounted for 89 per cent of the value of total export shipments in 1960, were gathered. The maximum annual volumes exported were determined from the data and these were valued by using three—lowest, average, and highest—prices registered during the period 1949–60. The corresponding total values for the fifteen principal commodities were then used as bases for estimating the value of all export products by using the 1960 proportions.

The data showed that if the economy can export the maximum volumes registered in the past 12 years and sell these products at the average price that prevailed during the period, foreign exchange receipts would aggregate $610 million a year—within one per cent of the 1966 estimate based on the straight line projection. Receipts from exports of the same volume would reach $740 million if the premium prices during the past 12 years shall prevail in the world markets. On the other hand, the receipts would fall to $500 million if the lowest prices shall prevail.

Significantly, the maximum shipments for nine of the fifteen principal export products which accounted for 58 per cent of their total 1960 value occurred in the past three years (1958–60). In the case of copra, coconut oil, copra meal and iron ore, maximum shipments were registered in 1956. The recorded volume of copra exports dropped from 966 to 681 metric tons between 1956 and 1959 and recovered in 1960 to 804 metric tons. The volume of coconut oil exports, similarly, dropped from 109 to 65 metric tons between 1956 and 1959 but continued to decline in 1960 to 60 metric tons. In the case of iron ore, recorded shipments also declined, albeit at a smaller rate, continuously between 1956 and 1960.

The largest shipment of abaca, 128,000 metric tons, was made in 1951, at the height of the Korean War. Since then, shipment volume fluctuated at levels such as 122,000 metric tons in 1956 and 101,000 metric tons in 1960. Finally, the largest volume of canned pineapple products of 77,500 metric tons was shipped in 1952, dropping to 21,300 metric tons in 1958 and then levelled off at around 44,500 metric tons in 1959 and 1960.

Prices of nine of the fifteen principal export products during the last three years 1958–60 were higher than the corresponding 1949–60 average prices. The value of these nine products accounted for 70 per cent of the total value of the fifteen principal exports in 1960. Prices of abaca and copra meal during 1959 and 1960 were similarly higher than the corresponding 12-year average prices. In the case of logs, prices fluctuated such that prices in 1951, 1954, 1956 and 1960 were higher than the 12-year average price. Copper prices during 1957–60 were below the 12-year average price. However, the 1959 price was within 2 per cent of the average price.

III

The imminent revision in the exchange rate against the domestic currency unit is expected to act as a stimulus for expanding export receipts. The higher exchange rate shall improve the competitive position in the world market of some of the country's manufactured export products, e.g., cement, plywood, and processed food items. The upward revision of the exchange rate shall also alter the relative profits obtainable from production for the domestic and world markets in favor of the latter.

Prospects in the world market are determined by diverse factors. The most significant factor with regards to sugar exports consists of the continuance of the expanded quota in the U.S. market and of the higher prices obtainable from the U.S. market vis-a-vis the other world markets. The upward revision of the exchange rate may operate to make Philippine sugar competitive in the other world markets, notably in Japan.

Demand for coconut products shall depend on conflicting trends in the world market. On the one hand, the economic progress of the Western Europe, especially the Common Market countries which absorb the largest bulk of this export product, is expected to expand demand for coconut products to be used as raw material for margarine. On the other hand, the rising level of incomes in these countries shifts the demand for soap, which uses coconut products as raw material, to synthetic detergents. Moreover, the common market may operate to weaken the competitive position of Philippine products. In the United States, purchases of coconut products from the Philippines had not expanded despite the increase in income and population due to the shift in consumption from soap to synthetic detergents and the displacement of hard oils by hydrogenated oils between 1949 and 1960. Copra exports to the U.S. dropped from 35–450 thousand metric tons in 1949–51 to 300–340 thousand metric tons in 1952–59 and then to 280 thousand metric tons in 1960. However, use of coconut oil in the bakery and confectionery trades as well as industrial and technical production activities had expanded to cushion the effect of the two contractionary factors.

Prospects for logs and lumber exports depend on developments in Japan and the United States which constitute the major markets. Continued growth in income and populations serve as underlying factors behind the demand for logs and lumber in the long run. Prospects for abaca, on the other hand, do not appear bright in view of the increasing inroads of substitute products in the world market.

IV

Receipts from non-merchandise exports, not including donations, followed a downtrend during the last nine years from around $180 million in 1952–53 to $155 million during 1959–60. The downtrend was essentially due to the steady decline in U.S. government expenditures from $134–139 million in 1952–53 to $82–89 million in 1959–60. Further decline in U.S. government expenditures may occur as a result of the imminent full decontrol which would raise the exchange rate. Receipts from gold production, on the other hand, rose from around $6 million in 1955–57 to $9–11 million in 1958–59 to reach the high $12 million by 1960. Other foreign exchange earnings also increased from $34–40 million during 1951–55 to $54–61 million in 1956–60.

Receipts of donations from abroad fluctuated between $6 and $8.5 million during the period 1955–60, averaging $8 million in the last 3 years.

On the payments side, investment remittances of earnings and assets rose from around $20 million in 1955–57 to $28 million in 1958–59 and reached $44 million in 1960. Other payments for non-merchandise imports fluctuated between $46 and $62 million between 1951 and 1960, the upper limit having been registered in the last year. These payments shall be affected by the prospective upward revision in the exchange rate in a way converse to the effect on U.S. government expenditures.

To get the order of magnitude of the foreign exchange resources that shall be available during the program period, estimates were made on the basis of the following assumptions:

(1) U.S. government expenditures shall average $60 million a year during the program period, about a third lower than in 1960.

(2) Receipts from gold output shall continue at the 1960 level of $12 million a year.

(3) Receipts from other earnings shall increase in the same absolute magnitude as the rise between 1951–55 and 1956–59 to $78 million a year.

(4) Receipts in the form of donations from abroad shall continue at the average 1958–60 level of $8 million.

(5) Investment remittances and other non-import payments shall continue at the 1960 levels of $44 million and $74 million, respectively.

(6) Payments for Special Financing Items, such as deferred payments for capital goods, shall follow the schedule as estimated from records of the Central Bank.

The estimates may finally be extended to indicate the capacity of the economy to absorb real imports by providing for the resources that may be made available in kind. In this connection, it is estimated that annual reparations and ICA grants in kind shall be in the order of $25 million and $5 million, respectively. In addition, it is assumed that commodities shall continue to be provided under the U. S. Public Law 480 at the 1961 level of $22 million.

Estimated Capacity to Import, CY 1962–66
(Million U.S. Dollars)

Item	1962	1963	1964	1965	1966
1. Merchandise Export Receipts	543	561	580	598	616
2. U. S. Government Expenditures	60	60	60	60	60
3. Gold	12	12	12	12	12
4. Other Earnings	78	78	78	78	78
5. Foreign Exchange Earnings from Current Output	693	711	730	748	766
6. Donations	8	8	8	8	8
7. Total Foreign Exchange Receipts	701	719	738	756	774
8. Non-Merchandise Import Payments—					
8.1 Investment Remittances	44	44	44	44	44
8.2 Special Financing Items	26	33	33	32	24
8.3 Others	74	74	74	74	74
Total	144	151	151	150	142
9. Capacity to Pay for Imports	557	568	587	606	632
10. Grants in Kind					
10.1 Reparations	25	25	25	25	25
10.2 Public Law 480	22	22	22	22	22
10.3 AID Aid	5	5	5	5	5
11. Capacity to Import	609	620	639	658	684

The estimates may be converted into a Fiscal Year Basis by assuming that the distribution of export receipts shall follow the average pattern the last three years 1958–60, i.e., 47.7 per cent and 52.3 per cent of total calendar year receipts in the first semester and second semester, respectively. In the case of the other items in the estimate, it is assumed that these are distributed equally between the first and second halves of the calendar years.

Estimated Capacity to Import, Fiscal Year 1962–63 to Fiscal Year 1966–67
(Million U. S. Dollars)

Item	1962-1963	1963-1964	1964-1965	1965-1966	1966-1967
1. Merchandise Export Receipts	552	571	589	607	625
2. U. S. Gov't Expenditures	60	60	60	60	60
3. Gold	12	12	12	12	12
4. Other Earnings	78	78	78	78	78
5. Foreign Exchange Earnings from Current Output	702	721	739	757	775
6. Donations	8	8	8	8	8
7. Total Foreign Exchange Receipts	710	729	747	765	783
8. Non-Merchandise Import Payments					
8.1 Investment Remittances	44	44	44	44	44
8.2 Special Financing Items	26	33	33	32	24
8.3 Others	74	74	74	74	74
Total	144	151	151	150	142
9. Capacity to Pay for Imports	566	578	596	615	641
10. Grants in Kind					
10.1 Reparations	25	25	25	25	25
10.2 Public Law 480	22	22	22	22	22
10.3 AID Aid	5	5	5	5	5
Total	52	52	52	52	52
11. Capacity to Import	618	630	648	667	693

Chapter IX

COMMERCIAL AND INDUSTRIAL POLICY

The achievement of the investment and foreign trade targets of this integrated economic program depends heavily upon the ability of government to marshal the powers and organize the machinery for an integrated and coordinated commercial and industrial policy. This policy shall have for its principal objectives under the program the following:

1. To promote Philippine exports in foreign markets;
2. To insure that Philippine foreign trade shall be at the best terms that can be gotten;
3. To provide inducements and protection for domestic and Filipino industry, agriculture and commerce;
4. To assist domestic traders and producers to become more efficient and more competitive;
5. To guide domestic investments into the lines of highest priority in this integrated economic program.

Policy Instruments and Government Organization

There are at present a number of instruments available to the Executive branch of the government for achieving these objectives. Among the principal ones are:

(*a*) Tariffs including the powers of the President under Section 401 of the Tariff Code to raise or reduce rates upon recommendation of the Tariff Commission and the National Economic Council;

(*b*) The power to negotiate trade agreements under Section 402 of the Tariff Code (Republic Act 1937, as amended);

(*c*) Trade promotions responsibilities of the Department of Commerce and Industry;

(*d*) The remaining tax exemption pripileges under Republic Act 901;

(*e*) Tax exemption privileges under the Basic Industris Act;

(*f*) Various import control laws.

The administration of these various instruments is distributed among a wide number of institutions and government agencies. It is proposed, first, to establish an administrative machinery for the purpose of integrating and coordinating the administration of instruments in the category of commercial and industrial policy. Ultimately, and as soon as appropriate legislation can be passed, it is intended that all these instruments should be transferred and lodged in a single department of the government, the most likely one being the Department of Commerce and Industry. The concept here is to convert the Department of Commerce and Industry into a "Board of Trade" type of agency possessing an array of instruments for providing protection, inducements and assistance to domestic industry. The proposed legislation will also embody the guidelines for the use of these instruments to the end that all commercial and industrial incentive programs of the government shall be administered under the responsibility of a single member of the cabinet.

In the meantime and until such legislation is passed, it is proposed to manage the coordination of the various instruments and programs through the formation of a cabinet committee under the Secretary of Commerce and Industry that shall carry the responsibility of consolidating the various incentive measures, including tariffs and tax exemption, and coordinating their implementation for the purpose of achieving the trade production and investment targets of this integrated program.

Protection to Domestic Industry

One of the principal fears of business in the contemplated decontrol of foreign exchange is the loss of the protection which exchange controls provided to domestic industry against undue external competition and to Filipino enterprise against undue foreigner competition. Under this program, as the exchange control machinery is dismantled, the alternative means of achieving the legitimate ends of controls shall be instituted. To this end:

1. The President has exercised his power under Section 401 of the Tariff Code to increase the tariff rates on imports competing with domestic industries for the purpose of providing a reasonable margin of preference which will render domestic producers more competitive.

These tariff modifications consist of two parts, namely:

a. The reduction to the maximum of fifty (50%) per cent of customs duties on fifty-four (54) articles that are considered highly essential for domestic consumption and in order to lower the prices of such imported articles to the consumer; and

b. The increase in duties on nearly seven hundred (700) import articles that are locally produced in order to protect and encourage the growth of new domestic industries.

These tariff modifications are the results of nearly two years' study made by the Tariff Commission, the Technical Staff of the National Economic Council, and our inter-departmental technical committee composed of representatives of the National Economic Council's technical staff, those of the Tariff Commission, the Central Bank of the Philippines, the Joint Legislative Tax Commission, and a representative of the consumers. The studies were supplemented by public hearings and have been carefully examined, analyzed, and revised by the National Economic Council.

The tariff modifications took into account the effects on prices and government revenues as well as on the domestic industries.

2. Wherever necessary, the Tariff Commission should recommend the imposition of countervailing duties under Section 302 of the Tariff Code to offset benefits that may be derived by imports from foreign subsidies. To the same end, the Secretary of Finance should immediately have undertaken a study of articles of imports that are being "dumped" into the Philippine market from abroad within the context of Section 301 of Republic Act 1937.

3. The Tariff Commission should immediately investigate, in accordance with Paragraph G of Section 402 of the Tariff Code, whether and to what extent commodities imported by the Philippines from countries with which a trade agreement has been entered are being imported in such increased quantities as to cause or threaten serious injury to the domestic industry producing like or directly competitive products in order to recommend to the President, through the National Economic Council, the establishment of import quotas for the protection of the domestic industries affected.

The Use of Government Procurement as an Incentive Measure

While tariffs are an effective instrument for providing protection to domestic industries against undue foreign competition, they do not provide specific protection to Filipino enterprises against competition from foreigners in the domestic market. For this purpose, in keeping with the basic philosophy of the administration that Filipinos must be assisted in their legitimate aspirations for assuming a larger role in the domestic economy, the government will have to adopt more indirect means of assisting Filipino businesses. One such is the use of government purchasing policy. The government is a large consumer of many items ranging from stationery and supplies to various agricultural commodities. It is possible, through the deliberate distribution of government purchase contracts, to provide assured, substantial and stable markets for the products of Filipino enterprises.

The faithful observance of the terms of the Flag Law provides one such inducement. This should wherever permitted by law be closely observed not only by the government itself but also by government-owned corporations.

It will be necessary, in order to render government purchases of real assistance, to improve the payment machinery of government. At present business firms find that they have to carry sales to government as accounts receivable for longer than normal. This makes the government as a market cumbersome and expensive particularly to Filipino enterprises that are just beginning and are hard-pressed for financing. The result of the slow and red tape ridden payment procedure of the government is to render this a market only for large usually foreign-owned firms looking for incremental business and willing to extend credit terms beyond normal business practice. In many instances this factor more than overcomes whatever advantage the Flag Law gives to Filipino enterprises.

Unintended Harmful Competition from Government

At times the government implements policies which unwittingly results in harmful and discouraging competition to private Filipino business. It is part of this Program that all such conflicts shall be minimized and where possible removed altogether. Reference is made, for example, to the importation under reparations of articles that compete with domestically produced commodities. The NAMARCO, enjoying the advantage of exemption from taxes and customs duties and at one time enjoying preferential exchange rate, would import food and manufactured items directly and unfairly competing with products of Philippine and Filipino enterprise. Under this integrated economic program, all such activity shall cease. The facilities of the NAMARCO shall be used to assist Filipino enterprises in overcoming with effective and professional promotion and marketing techniques the initial resistance that usually confronts locally made goods. The cost of marketing and distribution in the country and particularly that of introducing new local brands is often prohibitive for struggling new Filipino enterprises. As a result these businesses are at the mercy of those who control established channels of marketing and distribution who are able to exact terms that leave little inducements for fixed investments in process. To the extent feasible, the NAMARCO shall be transformed into an agency for stimulating investments rather than for discouraging them.

Filipino Brands

It is considered beneficial to the country gradually to replace foreign brands with Philippine trademarks. The reason there has been little movement in this direction during the past years has been the fact that new manufacturers are confronted with a Filipino preference for foreign brands and the initial costs of combatting this preference and promotion a taste and a new preference for Philippine trademarks are so high that many Filipino firms do not find it feasible to make the effort. As a result foreign brands are perpetuated even for commodities of relatively simple fabrication and the dependence of the country on foreign companies protracted far beyond the time our own manufacturers have become adept at producing the commodity.

The provision of assistance to new Filipino manufacturers in introducing our own local brands shall be an explicit program of the Department of Commerce and Industry and specifically of the NAMARCO. It shall be one of the functions of NAMARCO to assist Filipino companies in educating the Filipino consumer into a preference for local brands.

Assistance in Improving Efficiency and Quality

If the Filipino consumer is to be induced to preferring locally made products, the quality and costs of those products must eventually be conformed to his taste and budget. Likewise, industrial products of local firms must conform to rigid specifications and standards, particularly where these are critical for use in further industrial operations or construction. The government shall provide the necessary office staffed by competent personnel and equipped with modern testing facilities for the purpose of establishing rigorous standards for domestically produced commodities.

At the same time, a manufacturing extension division is proposed to be created with the objective of providing technical assistance to Filipino manufacturers to improve plant efficiency, undertake training programs for operating technologists and plant personnel, assist in establishing systematic quality control measures for the purpose of improving the quality and productivity of Philippine industry. Wherever necessary, the government shall make representations with foreign governments for the purpose of making available to domestic manufacturers the most competent experts and the most advanced technology.

Office for Industrial Promotions

It is expected that one of the present bottlenecks which may develop in the integrated economic program will be the formulation and preparation of well-conceived projects whose economic feasibility has been proven to the satisfaction of domestic as well as foreign investors and creditors. Many of the projects contemplated in the program will make use of locally available materials. Necessarily the production processes and standard equipment and implementation for the processing of such materials will need adaptation to local conditions.

Particularly when little information is available on the properties and behavior qualities of local materials and on the cost of processing, private local capital is reluctant to undertake the expensive experimentation and pilot plant testing involved. It is proposed under this program to establish an Institute for Industrial Research to perform this type of work in order to open up the horizons for new private investments into ventures that develop and exploit indigenous resources of the country.

Together with this institute, an industrial promotions agency is proposed to be established which shall assist promoters of industrial ventures to prepare the project studies and proposals that need to be presented to local investors, local banks and financing companies to prospective foreign investors and creditors for the purpose of raising the necessary capital. If the program is to be successfully accomplished, many hundreds of projects will have to be examined, tested for economic and business feasibility and written up for presentation.

Chapter X

FOREIGN ECONOMIC POLICY

Under this integrated economic program, Philippine foreign economic policy shall have three principal objectives:

1. To use the instruments of international negotiations and foreign economic intelligence in order to secure for the country the maximum gains from international trade;
2. To draw to the country maximum assistance from capital exporting nations for our economic development efforts by way of capital investments, loans, aid and technical skills, and to provide assistance to Philippine nationals in securing such assistance under the most favorable terms feasible.
3. To cooperate with friendly countries in meeting mutual economic problems, exchanging information and experience in formulating and implementing programs of international economic cooperation.

Securing Maximum Gains from National Trade

The integrated economic program calls for an aggregate importation of consumer and capital goods and various services amounting to a total of 4,271 million U.S. dollars (at present prices) during the period from FY 1963–67, compared with the corresponding figure of 3,359 million U.S. dollars from 1956–60.

In order to mobilize the foreign exchange required, the resources and facilities of various government offices need to be revitalized for the purpose. Reference is made particularly to the Department of Foreign Affairs and its foreign missions abroad, the Department of Commerce and Industry, the Central Bank of the Philippines, the National Economic Council, and the Tariff Commission.

It is proposed for the purpose of achieving maximum coordination among these various agencies in the definition and conduct of our foreign economic relations to create a Cabinet Committee under the Chairmanship of the Vice-President and Secretary of Foreign Affairs. This Committee shall have the responsibility of defining the foreign economic policy of the country that will be suited to the objectives of this program and to work out a program and schedule of international negotiations to achieve the objectives defined herein.

For the purpose of providing the necessary staff assistance to this Cabinet Committee on Foreign Economic Policy, it is proposed to form an Inter-agency Technical Committee composed of the technical men engaged in foreign trade and international finance research in different agencies of the government principally the Department of Foreign Affairs itself, the Central Bank of the Philippines, the National Economic Council, the Department of Commerce and Industry, and the Tariff Commission. This Technical Committee shall have the responsibility of mapping out, under the direction of the Department of Foreign Affairs, a program of international economic intelligence for the purpose of gathering, collating, tabulating and analyzing the information necessary for the formulation of Philippine positions in international negotiations. The committee also shall work out the procedures for making the results of its studies available to Philippine foreign traders and Philippine businessmen who may have need of such information for exploring foreign trade opportunities and in the conduct of their own individual negotiations with traders, bankers and financiers of other countries. It is intended that the technical group shall provide the guidelines for the work of commercial attaches and such other attaches as may be concerned with gathering economic, financial and technological information from foreign countries.

Section 402 of the Tariff Code of the Philippines (Republic Act No. 1937 as amended), empowers the President upon investigation by the Tariff Commission and the recommendation of the National Economic Council to enter into trade agreements with foreign governments or instrumentalities thereof for the purpose of expanding foreign markets for Philippine products. This power of the President under the law terminates five years from the date of enactment of Republic Act 1937 which is on June 22, 1962. It is proposed to request Congress to extend this power for another five years in order to give the President authority to use trade treaty negotiations to maximum advantage.

Pending International Trade Matters in the United States

One of the principal assumptions of the program is that sugar exports will produce gross annual foreign exchange receipts in the years from 1963–1967 of U.S. $668 million. This is based on anticipation, *first*, that there will be no basic change in the U.S. sugar quota system and that the U.S. will continue to purchase sugar at the supported U.S. prices, and *second*, that for at least the period of the plan, the Cuban share in the U.S. market shall continue to be reallocated from year to year on a non-quota basis and that the Philippines will get a share equivalent to 1,450 thousand tons per year.

There is a move in the U.S. Congress in the course of re-examining the Sugar Act of 1948 to substitute global quotas for country quotas and to have the United States purchase sugar at "world free market prices" leaving the quota premium or the difference between the United States domestic price and the World Free Market Price as a revenue of the U.S. Treasury. It is important for the purpose of this program that the Philippines make strong representations in the United States that by virtue of the spirit of the trade agreement between the Philippines and the United States, the Philippines should (*a*) retain its country quota, (*b*) secure a generous share in the Cuban allotment and (*c*) that this sugar should be purchased from the U.S. at the equivalent U.S. domestic support prices since the purchase by the U.S. government of the Philippine sugar at world free market prices would in effect be equivalent to imposing a U.S. tariff on Philippine sugar in violation of the trade agreement.

New Trade Agreements

In the matter of foreign trade promotions, the priorities contemplated herein are expansion of trade to the European common market countries, improvement of the terms of trade with Japan and promotion of Philippine exports particularly of light manufactured goods in neighboring Asian countries, particularly Indonesia, Hongkong, Malaya, Singapore, Pakistan, India, and also with Australia, New Zealand. It is estimated in the program that with the adjustment of the exchange rate a number of Philippine manufactured goods will be competitive in these latter countries.

It is proposed that the necessary groundwork studies be undertaken by the Technical Committee on Foreign Economic policy for submission to the Cabinet Committee for the negotiation of trade agreements with West Germany, Netherlands, France and Italy and with the aforementioned Asian countries. Likewise, the draft of the treaty of friendship, commerce, and navigation with Japan at present pending should be re-examined and if necessary a new basis recommended for re-opening negotiations.

It may be premature to consider mutual bilateral tariff concessions in such treaties but it is possible that the Philippines can use the government's willingness to relinquish tariffs on particular items of capital goods as a basis for securing from capital goods exporting countries corresponding concessions. This needs to be explored carefully. The matter will be studied by the proposed Inter-agency Technical Staff.

Commodity Agreements

The bargaining position of the Philippines particularly vis-a-vis Japan and other raw material importing countries can be bolstered by closer participation of the country in commodity agreements with other exporters of raw materials. A country like Japan whose industrial structure is such that it must import bulky materials needs nearby sources for its ores and logs. The Philippines should get together with the exporters of these items in Asia in order to secure better terms of trade with Japan.

In addition, the Philippines should take a more active role in cooperating for international price stabilization with other producers of copra, hard fibers, and with members of the International Sugar Agreement.

Assistance to Filipino Traders

The Filipino traders are usually at a disadvantage in their dealings with businessmen of other countries by reason of the full government support that the traders receive in their respective countries. It is time that the Philippine government formulates and implements a program for giving maximum support to its traders with the view to assisting them in securing the best terms both for their procurement of commodities from abroad and for sales of Philippine products in other countries. Reference is made particularly to economic intelligence work which reveals buyer and seller combinations and cartels in other countries that work to the disadvantage of Philippine trade. Philippine foreign missions abroad also should become centers of contact and goodwill among businessmen of other countries, which contacts and goodwill should be placed at the full disposal of Philippine business in expanding Philippine trade.

Drawing Maximum External Assistance

In pursuing this integrated program of economic development, the resources that will be in short supply in the Philippines are capital, a fund of technology applicable to Philippine materials and conditions, scientific personnel and skilled operating technologists and managerial personnel. These resources are generally in abundance in the more advanced countries in the world, and can become accessible to a country that is organized to tap and utilize them.

Foreign Economic Policy

The foreign missions of the Philippine government shall be used as instruments for tapping such of these resources as can be used by the Philippines to advantage.

Foreign Capital

Philippine foreign missions in the principal-capital-exporting countries should actively create and maintain a favorable image of the Philippines as a safe and profitable area for investment placements. They should be fed regularly with information and promotions materials for the purpose. The materials shall be prepared by the Central Bank and distributed abroad through the Department of Foreign Affairs.

The foreign office, on the other hand, should become a center of information on sources of financing in the financial centers, principally, New York, Washington, San Francisco, London, Frankfurt, Zurich and Tokyo.

It is proposed to have the Department of Foreign Affairs start immediate studies for negotiation of Tax Treaties with capital-exporting countries to avoid double taxation of interest and dividend income from investments in the Philippines.

Studies shall be undertaken as regards the usefulness of appointing banking attachés in Washington, Frankfurt and Tokyo to assist Filipino businessmen in negotiating for foreign loans and/or equipment export credits.

Technology

One of the advantages of advanced countries is the availability of surplus resources for undertaking expensive basic research. This is the type of research which may constitute one of the bottlenecks of the investment and production targets of this program. Promoters, investors, and creditors of projects like to be convinced of the technical and economic feasibility of ventures involving new materials or new processes. By availing of laboratory facilities in advanced countries doing research in minerals and forestry products, particularly, the required technical information can be gathered more readily by prospective promoters of ventures.

The forest product laboratories of the United States, the Scandinavian countries and West Germany, provide a valuable source of technical information. Likewise, chemical research laboratories in these countries and in the United Kingdom may be used to advantage by the Philippines for establishing the economic potential of Philippine natural resources. In these countries particularly, it may be desirable to appoint Science Attachés whose principal function will be to provide a regular channel for conveying and disseminating the results of technological research in these countries to Philippine technologists and businessmen.

Among the types of information that can be gathered by these Attachés and transmitted to the Philippines will be particular merchandise designs that command international markets. Although not strictly technical in nature, such designs as for example, furniture designs in Scandinavian countries will be of great value to domestic furniture makers who desired to serve international markets.

It is an economic truism that countries starting their development late have the advantage of a larger fund of technology in different parts of the world. Such technology must, however, be made accessible to the Philippines and it should be one of the programs of the Department of Foreign Affairs to assist in its gathering and dissemination.

The foreign office can be valuable also in creating a favorable atmosphere for the movement of personnel with technical background and experience that is valuable to the Philippines.

International Economic Cooperation

The Philippines is at present a member of such international agencies as the United Nations, the Colombo Plan, SEATO, and the Association of Southeast Asian states. In the past, there was little consideration given to the manner in which this country could take a more active role in promoting the economic ends particularly of these organizations or to how the Philippines might derive the maximum advantage from its membership. Delegations have been sent to meetings of these organizations and their committees with only the vaguest notions of the Philippine position. If at all their terms of reference were couched in the vaguest language with little bearing on specific Philippine objectives.

Part of the task of the Inter-agency Technical Committee will be to design the specific objectives that the Philippines should seek in its participation in international bodies, to submit its findings to the Cabinet Committee on foreign economic policy which shall then provide the policy guidance for Philippine delegations to these bodies. With effective staff work and firm policy guidance, Philippine delegations can become impressive representatives of the country in international conferences. These conferences offer an opportunity for disseminating to the rest of the world the fruits of Philippine experience and also in drawing from other countries ideas and experiences that may prove valuable for the solution of our own problems. What is important is that an institutional machinery be established here that can evaluate and use the results of international contacts.

Chapter XI

THE AGRICULTURAL DEVELOPMENT PROGRAM

(Agriculture, Fishing, Hunting and Forestry)

Agriculture will remain an important sector on the Philippine economy. Agriculture including fishing, hunting, and forestry, will continue in the immediate years ahead to contribute a large share to national income and to absorb a large portion of the increase in the labor force. Production in agriculture must expand, and land productivity increased in order to (1) meet food requirements of the economy, (2) raise traditional agricultural export production, and (3) provide surplus for industrial processing. Thus, although the proportionate share of agriculture to national income has declined from 39.8 per cent in 1950 to 33.5 per cent in 1960, it is expected that in the immediate future this sector of the Philippine economy will still account for the largest percentage of national income.

Measures for Expanding Agricultural Production

In order that the necessary levels of productive investments will be encouraged to be channelled into agriculture, livestock, fishing, and forestry, some of the measures that will be carried out by government and private sectors include:

1. *In Agriculture*. The construction of irrigation and water control facilities, the continuation of government subsidies for fertilizer and seeds, expansion of research programs for developing high-yielding and disease-resistant varieties, establishment of liberal credit facilities, and improvement of marketing.

Fertilizer and seed subsidy for rice and corn in the amount of ₱20 million annually is a current program which is expected to be continued. Price-support programs for Viriginia tobacco of about ₱60 million is expected to continue although to taper off as production increases, while price-support for rice during 1962 is expected to amount to ₱50 million. Under this type of program, the government makes outright purchases of stocks (within the limitations of the available funds).

2. *In Livestock*. The program includes the establishment of breeding and stock farms. The importation of superior breeds of beef and dairy cattle, and the expansion of a livestock dispersal program for pure breeds. The installation of slaughterhouses and cold storage facilities for demonstration purposes form an essential part of the program.

3. *In Fisheries.* Mechanization of native craft and gear for municipal fisheries, establishment of a loan fund for financing offshore fishing, a proposed fertilizer subsidy for fishponds and other related measures constitute the proposed government efforts to develop the fishing industry. Programmed government expenditures include about ₱750,000 yearly for establishment of demonstration fishponds, fertilizer subsidy, and extension work.

The private sector program includes expansion of fishponds, acquisition of fishing boats, improvement of native gear in annual amounts of about ₱25 million annually.

4. *In Forestry and Hunting.* Improvement of forest management, forest protection, reforestation, and replenishment of wildlife constitute vital government measures to be supported by average annual expenditures of about ₱7.5 million annually. Dynamiting of fish may be stopped.

B. *Implementation*

Supervised farm credit, tenure reform, agricultural extension, and related measures constitute the framework within which the agricultural program will be implemented.

Agricultural production in this country is carried out largely on small-sized farms. To render the achievement of the program possible, the various related measures mentioned above must be coordinated. The role of supervised credit is to induce the farmer-borrower to utilize the available credit facilities fully: the various production and related operations that are financed must be efficient so that maximum utilization of the loan is obtained. As an important complementary measure, agricultural extension work forms an integral part of supervised credit.

With the resultant increase in production that may be obtained from application of better techniques of production (that are induced by supervised credit and agricultural extension work) the problem of efficient marketing arises. The farmer must be able to obtain additional returns or income from increased production; otherwise incentive to production is eliminated. Two factors are important in increasing farm income, assuming an increase in production: (1) improvements in land tenure relationships, particularly terms involving crop-sharing; and (2) the marketing system which will assure stability of prices and if possible reduce marketing costs so that increases in production will not result in a decrease in prices.

C. *Production Targets*

Agricultural Crop Production. The steady increase in the production of farm crops is expected to continue well into the future. Over the next five-year period, the agricultural production program will be in the following broad magnitudes:

Crops	Annual Production in Thousand Metric Tons				
	1963	1964	1965	1966	1967
Food Crops	8,793	9,226	9,720	10,246	10,917
Rice (rough)	4,158	4,312	4,475	4,651	4,840
Corn	1,316	1,375	1,440	1,509	1,585
Fruits and nuts	1,046	1,109	1,198	1,311	1,463
Root crops	1,590	1,655	1,717	1,787	1,857
Beans and vegetables	605	689	792	876	1,044
Others	78	86	98	112	128
Commercial Crops	16,382	17,134	18,020	19,016	19,778
Coconuts	596	634	685	748	823
Copra	1,160	1,200	1,250	1,310	1,380
Sugarcane	13,991	14,610	15,333	16,133	16,675
Abaca	110	125	145	170	200
Tobacco	73	78	84	91	100
Cotton and other fibers	39	51	63	76	89
Others	413	436	460	487	511
Total	25,175	26,360	27,740	29,262	30,695

1. *Rice Production.* To achieve self-sufficiency in rice, the annual production of rough rice must increase by an average of about 5% annually, from an annual production in 1960 of some 3,740 thousand metric tons to 4,840 thousand metric tons for 1967. In terms of milled rice equivalent, production by 1967 must reach 2,964 thousand metric tons. To meet required production, yields of rough rice per hectare of area planted must increase from about 26 cavans (of 44 kilograms net) to about 31 cavans; and area planted, must expand by about 55,000 hectares.

Average yearly investments of about ₱30 million are expected to meet production targets. This amount includes expansion of irrigation works, clearing of new land, expenditures on new farm equipment and work animals, and other related capital outlays.

2. *Corn Production.* The annual production of shelled corn must increase by about 270,000 metric tons (from about 1,316,000 metric tons in 1963 to 1,595,000 metric tons by 1967) in order to sustain self-sufficiency in this crop, for food and for animal feeds. To meet production targets, yields per hectare must be increased from an average of about 15 cavans of 56 kgs. to an average of about 25 cavans with the use of fertilizer and hybrid seeds, and

area planted to this crop expand by about 200,000 hectares. However, no new clearings of land are envisioned; but the emphasis is on double or even triple planting of land for this crop.

3. *Other Food Crops.* Production of fruits and nuts (excluding coconuts) is programmed to increase by about 415,900 metric tons, mostly through improving yields per hectare by fertilizer application, insect control, and the like; and production of other food crops are also to be expanded on the basis of increases of area planted and of yields.

4. *Export Crops.* The program for all export crops calls for increases in production by more than 25 per cent over the next five years. The programmed annual production in sugarcane by 1967 in order to sustain current quotas and to meet increasing domestic consumption, is about 16,000 metric tons; while the annual production of copra must increase from 1,075 thousand metric tons in 1960 to 1,400 thousand metric tons by 1967 in order to maintain and increase slightly the export market for this crop.

Livestock Production. Production targets for livestock envision an over-all average annual increase of 10 per cent in livestock population (carabaos, cattle, swine, poultry, etc.) in order to accelerate domestic sources of supply for meat. Annual meat production is to be raised by about 50 per cent from 1963 to 1967, with pork meat constituting about 65 per cent and poultry meat about 21 per cent of all meat produced domestically.

The rapid increases in livestock production are premised partly on government assistance in the form of breeding farms for upgrading animal quality, dispersal of high-quality livestock, and disease control. However, the major portion of the expansion in livestock is expected to be provided by private entrepreneurs who will venture into cattle ranching, piggeries, poultry projects, and the like. It is envisioned, however, that livestock production (particularly, hogs) will continue to be produced in small-sized farm units.

Fishing. The program for expansion of fish production is as follows:

Projected Production
(In thousand metric tons)

Period	Fishponds	Deep-Sea and Foreshore		
1963	56.8	140.0	284.0	480.8
1964	84.0	146.7	290.5	521.2
1965	90.5	153.8	297.0	541.3
1966	98.2	161.0	303.6	562.8
1967	106.2	168.8	310.1	585.1

The area for fishponds is expected to increase at about 2,000 hectares annually; and approximately twenty 100-ton fishing boats are programmed to be acquired annually. Improvements in native gear used in municipal fisheries are expected to help increase fish production from this source.

Forestry. The annual production program for logs calls for stabilizing production at about 2,600 million board feet. This is believed to be the growth capacity which Philippine forests can sustain, and is approximately equal to the production during 1960. Lumber production, however, is to expand rapidly through the establishment of more wood-processing plants.

D. *Summary of Investment Requirements*

To meet production targets, the additions to the stock of capital in various agricultural sectors, for the period 1963 to 1967, are summarized as follows:

Sectors in Agriculture	Gross Investments: 1963–67		
	Pesos	Dollars (In Millions)	Total[1]
Food Crops	194.6	24.4	243.4
Export Crops	231.4	3.0	237.4
Fisheries	114.4	45.3	205.0
Livestock	181.3	14.6	201.6
Forestry	12.7	38.0	88.7
Total	734.4	125.3	976.1

Thus, total gross investments in agriculture during the period 1963–1967 will reach about ₱985.1 million, of which about U.S. $125,380 will be required for the importation of farm implements, fishing boats and gear, lumber equipment, and related machinery and equipment.

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[1] Estimated on the basis of U.S. $1 to ₱2.

CHAPTER XII

THE INDUSTRIAL PROGRAM

The industrial program has the following objectives: (1) to expand production of import substitutes in terms of finished, intermediate, and capital goods and (2) to increase production of exportable manufactures. The first objective implies expansion of intersectoral activities and relationships and a reduction in the dependence on imports. An analysis of the import dependence of domestic production and of final consumption indicates substantial imports requirements in certain sectors. Thus, in most industries, for every one unit increase in the demand for final products, there is a corresponding increase in imports of intermediate products (raw materials or goods) for further processing domestically:

Industry	Import Coefficients (Content of imported intermediate product per unit of final demand)
Transport equipment	0.6679
Textile	0.3709
Footwear	0.4958
Machinery, except electrical	0.4240
Basic Metal and Metal products	0.3980
Electrical machinery	0.2170

The second objective involves the expansion of the production of certain light manufactures which can be competitive in the world market, particularly in the Southeast Asian market. Such manufactures may include footwear and wearing apparel, pharmaceuticals, cement, cottage industry products, and wood products. With adjustments in the foreign exchange rate, these products may be competitive in the world market.

The industrial program that has been developed include the following sectors: manufacturing, mining, construction, and transportation and communication.

The Manufacturing Industries

The program for manufacturing envisions the following priorities in investments:

Manufacturing Industry	Total Gross Domestic Investments Over the Period FY 1963–1967	
	In Million Pesos	Per Cent Distribution
Basic Metals and Metal Products	1,736.6	44.2
Basic and other chemicals	452.4	11.5
Pulp and Paper	216.5	5.5
Food Processing	179.1	4.6
Textiles (ramie and synthetic fibers)	179.6	4.6
Non-metallic minerals	185.3	4.7
Wood Processing	110.9	2.8
Cottage Industries	90.6	2.3
Miscellaneous industries—(footwear, apparels, furnitures, leather, and others)	774.9	19.8
Total	3,925.9	100.0

The various individual projects in the metal industries include the establishment of two iron and steel mills with an aggregate annual capacity of 360,000 metric tons; and of copper smelting and refining plants (with an aggregate capacity of 14,000 metric tons annually), aluminum smelting, nickel smelting, zinc smelting, and coal refining plants. In the development of the metal product industries, the manufactures of pipes and fittings, cold rolling of steel and tin plates, and the like have important priorities; and in the domestic manufacture of machinery, the emphasis will be on the manufacture of agricultural tools, machine and hand tools, office equipment, electrical machinery and appliances, and transportation equipment (spare parts).

In the manufacture of chemicals, priorities will be placed on production of soda ash, caustic soda, and fertilizer (including a urea plant). The plastics industry is also programmed for expansion.

The program for the textile industry stresses the integration of cotton textile manufacturing sector and the expansion of ramie and synthetic fiber textile manufacture.

In the pulp and paper industry, the manufacture of pulp and newsprint take precedence; and the project proposals received by the government concerning expansion in this type of manufactures envision investments of about ₱114 million over a span of 5 years.

In the food processing industry, the canning of meat, fruits and vegetables takes initial priority. Expansion in the capacities for milling rice, corn, wheat, and cassava constitute a significant portion of the program for this industry.

The expansion of the production of non-metallic mineral products are expected to include such products as glass, cement hollow blocks and pipes, construction materials and household fixtures, chinaware, and glassware.

In the wood-reprocessing industry, expansion of the capacities of sawmills, plywood and veneer plants, furniture manufacturing and other woodworking activities have been programmed. It is the intention that the exportation of logs be held constant and emphasis be placed on the domestic processing of logs and lumber into various end products.

In the rest of the manufacturing sectors, emphasis will be placed on the development of small scale and cottage industries, including manufacture of wearing apparel, footwear, optical instruments, manufacture of agricultural implements and tools, and hand-weaving and other handicrafts.

The Mining Industry

The production of the mining industries is aimed at fulfilling export demand and at supporting the proposed domestic metal industries.

The program for this industry includes both exploration and exploitation of mineral resources. During the period 1963–1967, it is estimated that capital outlays in oil exploration by the private sector will total about ₱50 million; while exploration for metals will require about ₱15 million for the period.

It is estimated that the development of metal and non-metal mineral resources, investments in the exploitation of metallic minerals will amount to more than ₱320 million during the aforementioned period, of which 16.7% will be for precious metals (gold and silver), 65.8% for base metals and 17.5% for non-metals. Development of coal, pyrites, and limestone deposits during the five-year period being considered may total to more than ₱56 million.

Construction

The expected investments in construction will be utilized for (1) residences and commercial buildings, (2) plant buildings, (3) roads and highways, (4) portworks and airports, (5) irrigation, water supply and flood control, and (6) government buildings. The priorities in the construction program are as follows:

	Investments Fiscal Year 1963–67	
Public Works	Amount in Million Pesos	Per Cent Distribution
Water supply and flood control	471.3	19.4
Roads and highways	295.0	12.1
Irrigations	174.2	7.2
Plant buildings	189.5	7.8
Airports and portworks	151.5	6.2
Private		
Residential	445.0	18.3
Plant buildings	429.8	17.7
Others	273.0	11.2
Total	2,429.4	100.0

The requirements for dwelling units, estimated at about 130,000 units per annum, can be met only partially: annual investments expected will provide for only about fifteen to twenty per cent of requirements, with this ratio higher in urban areas.

The construction of government buildings, during 1963–67 include 20,000 classroom units for elementary; 2,125 hospital beds, and 30 national buildings. The government program of providing low-cost housing includes construction of about 3,750 low-cost housing units for sale to low-income groups.

Some 3,000 kilometers of main routes together with 12,500 kilometers of feeder roads will be constructed during the period. Improvement of 56 national ports, 320 municipal ports, 220 lighthouses, and construction of 10,000 linear meters of shore protection works will be undertaken to further the development of inland trade and commerce. Fifty-six airports are programmed for improvement.

In water resources development, the program is designed to achieve the following goals:

(1) Establishment of new power plants to raise the country's installed power capacity by 590,000 kilowatts;

(2) Provision of more irrigation facilities through an increase of the country's irrigated hectarage by 238,000 hectares;

(3) Improvement of 60 waterworks systems including Manila and suburbs, construction of 188 new waterworks projects, tapping of 1,500 springs and digging of 30,000 artesians wells to serve potable water to about 2.5 million people. The construction program places emphasis on the development of gravity irrigation projects and of

water supply for drinking and industrial purposes. More extensive utilization of domestic construction materials for buildings is also envisioned.

Power Development

The power development program calls for raising installed power capacity by 590,000 kilowatts, through development of hydroelectric power from multi-purpose projects and from the installation of dieselized power plants. The extension of transmission lines, particularly towards cottage industries production centers, are also programmed.

Transportation and Communication

The program for expansion of transportation and communication facilities include additional motor vehicles, extension of railroad tracks north and south of Manila by about 475 kilometers, additional air (about 40 airplanes) and water (by about 215,000 gross tons for overseas and inter-island shipping) facilities, and more telephone units (by about 145,000).

The emphasis of the program is towards growth in facilities for the purpose of expanding trade and reducing costs. Thus, facilities are programmed to service trade centers and the rural areas served by such centers; and incorporates measures to reduce costs by bulkhandling of cargo shifts to diesel engines, and more economic allocation of franchises for public utilities.

Chapter XIII

REGIONAL DEVELOPMENT

The regional distribution of population and production activity in the Philippines has been uneven. The Philippine population is distributed unevenly among regions: the highly populated regions are Central Luzon, East Visayas, where densities of population per square mile are 351 persons and 337 persons, respectively, as compared to a national average of about 200 persons per square mile. The sparsely populated areas are Southern Mindanao (including Sulu) which has a population of 84 persons per square mile; Northeast Mindanao with 96; and Cagayan Valley which has about 100 persons to the square mile. The Philippine population has also shifted over the last 60 years. At the turn of the century, only about 8% of the Philippine population were in Mindanao, as against 1960 when about 25% of the total population were residing in this particular area.

In terms of regional production activities, about 73% of manufacturing production is concentrated in the Metropolitan Manila areas and the adjacent Southern Tagalog region. Regional differences in types of agricultural production activity are also evident, differences which have been the result of centuries of regional specialization arising from competitive advantages offered by existing physical and other factors in each region. Thus rice production is concentrated in the flat terrains of Central Luzon, where the land is composed of clayey loam suitable to rice paddies. On the other hand, the Ilocos regions have dry sandy loam, not too rich to organic materials, which render the land fit for tobacco culture. The difference in region are further evidenced by the industrial distribution of the labor force; more than 46% of the total labor force in manufacturing are concentrated within the Southern Tagalog, Central Luzon and Metropolitan Manila areas, (Metropolitan Manila itself accounting for about 22%). The Ilocos and Cagayan Valley areas appear to be the least industrialized, each region having only about 2% of the labor force engaged in manufacturing.

Specific Regional Programs

In the regional development program of the Philippines, however, priority is placed on the most promising areas. In line with this basic policy, the Philippine Congress has established two regional development programs, one for the Mindanao area; the second for the Central Luzon-Cagayan Valley area.

In an effort to bring about a more equitable regional development, the government, by legislative fiat, has established regional programs for (1) the Mindanao area and (2) the Central Luzon-Cagayan Valley area. The regional program for the latter area will emphasize irrigation and power development; while the program for Mindanao proposes to include all types of industrial and agricultural development. To date, no program has been prepared for the development of the Central Luzon-Cagayan Valley region. For the Mindanao program however, a detailed study and a program draft for a five year economic and social development program for Mindanao (including Sulu and Palawan) covering the fiscal years 1962–1966 have been prepared.

The Mindanao program provides for an over-all development of that area and involve development of agriculture, mining, and manufacturing, power and all other economic sectors in Mindanao. A total financial outlay of ₱1.23 billion is envisioned during the five-year period of which about ₱0.7 billion will be forthcoming from the public sector including local government revenues, reparations, foreign aid and borrowings, appropriations from the national government, and borrowings from government financial institutions. The financing of the private investment program shall be drawn from sources within the areas as well as from other areas of the Philippines.

Some of the specific industrial projects for the area include the following:

1. An integrated steel mill which will produce 230,000 metric tons of finished products annually.
2. Aluminum plants, with capacities of 25,000 tons of aluminum from bauxite, and electrical power and 25,000 tons of aluminum ingots annually.
3. Coke plants with annual capacities of about 175,000 tons of coke per year.
4. Integrated polyvinyl-chloride plants.
5. Urea fertilizer plant.
6. Industrial salt-making plant.
7. Paper pulp plants, with annual total capacities of 30,000 tons of pulp.
8. Plywood and veneer plants with capacities of over 450,000 panels annually.

Since the area is endowed with tremendous water power resources, hydro-electric power development underlies the industrialization program of the area.

The regional development program is also premised on regional production patterns, available supply of raw materials and on accessibility of markets. Provincial industry surveys prepared by the Industrial Development Center (a joint project of the Philippine National Economic Council and the U.S. Agency for International Development) places emphasis on industrial projects utilizing raw materials available in each provincial area.

Organization of regional development program. In the preparation of workable regional development program, detailed studies will be developed for specific regions. The studies will identify priorities and incorporate particular projects for implementation within a framework that will provide internal and external consistencies.

In the implementation of regional programs, the tasks shall be divided as follows:

1. *Production:* There will be extension specialists not only for agriculture but also for manufacturing and for service industries, who will provide expert advise on production and related operations.

2. *Financing:* Not only will adequate financing facilities be provided, but credit shall be supervised to ensure maximum utilization of loans in agriculture and non-agricultural ventures.

3. *Marketing:* Marketing services will be provided to assist in the efficient distribution of produce.

Community Resettlement

There is a continuous internal shift in the Philippine population. This internal migration consists of population movements from one region to another, from rural to urban areas, and from urban to rural areas. Thus, inter-regional movements have occurred for instance, from the Ilocos region to the Cagayan Valley region; from Visayas to Mindanao. The continuous rural to urban migration are evidenced by the extremely rapid growth of the population in Metropolitan Manila area and other urban areas relative to total population growth.

These various types of internal migration, which is continuously taking place, require a program for community resettlement. This program should include not only rural to rural-frontier settlements but, in the larger sense, migration from rural to urban areas and from one region to another. Community settlement services should include re-training of migrants in new skills, placement in jobs, and related activities.

Chapter XIV

SOCIAL WELFARE AND MANPOWER POLICY

Economic development becomes meaningful when the broad base of the population are able to enjoy a decent level of living, and social order prevails.

Social Welfare. In the enjoyment of better living, various types of services are essential: education, health, and other related services.

The government's program for public education calls for outlays totalling ₱656.6 million for the next five-year period as follows:

Levels	Outlays, 1963–67 (In million pesos)
Elementary	385.3
Secondary	54.3
College	4.7
Others, (Fisheries, schools, books, etc.)	181.2

Of this total, about ₱237.14 million will be for capital outlay.

The public health program calls for improvement of the expectations of life: by reduction of deaths from controllable diseases and by expansion of medical services. Specific measures include expansion of health services in rural areas, reduction of infant mortality, tuberculosis and malaria control, establishment of medical research center, and nutrition research. Expenditures to carry out these public health measures will reach about ₱470 million over the next five-year period, of which about ₱18 million will be for capital outlay.

Other Services. Public services for improvement of general living standards include housing, child welfare, social work, and related activities. The magnitude of the annual demand for housing is indicated by the growth in the number of households of about 130,000 yearly. Government low-cost housing projects, however, will be modest at about ₱3 million annually over the next five-year period. More reliance will be placed on private construction to meet the demand for dwellings. Child welfare and social work designed to reduce delinquency and promote adjustments to social problems will be expanded, with this problem particularly made urgent by over-rapid urbanization.

Manpower Policy and Employment. By 1967, there will be about 12,300,000 persons offering their services for wage or profit; but available full-time or part-time jobs will probably be only a little less than 11,620,000. Thus, approximately 680,000 persons looking for work by 1967 will not be able to find jobs; and of the 11,620,000 persons who manage to find jobs, about 1,400,000 will be partially employed (that is, working less than 40 hours a week). Thus, there will only be about 10,220,000 persons fully employed by 1967, or only about 88% of the total labor force.

The industrial distribution of the employed labor force by 1967 reflects significant changes in production patterns since 1959:

	Employed Labor Force			
	1959		1967	
Industry	Number (In thousands)	% Distribution	Number (In thousands)	% Distribution
Agriculture	5,528	61.7	5,640	48.5
Industry	1,084	12.1	2,347	20.2
Construction	278	3.1	351	3.0
Basic Facilities, Services and Trade	2,069	23.1	3,279	28.3
Total	8,959	100.0	11,617	100.0

Some 330,000 to 360,000 jobs will be provided annually to absorb a large portion of the yearly increase in the labor force.

However, most of the jobs that will have to be created will be in the manufacturing and services sectors: in manufacturing, some 160,000 new jobs will be created yearly; and in the services sector, also about the same number. While employment in agriculture will increase in absolute terms, the rate of growth in the number of employed persons will be restricted to only about one-fourth of one per cent annually.

The shift of the labor force towards non-agricultural production will require significant changes in worker attitudes and orientation, acquisition of industrial skills and expansion of personnel management skills. To meet these necessary adjustments, training programs and education of workers will be important. Program targets include manpower training, including vocational and apprenticeship training systems and placements services.

To guard against exploitation of labor, strict implementation of existing labor standards will be a vital part of the labor program. Some of the labor standards may have to be changed, upon proper study, to conform with realities of new situations.

The improvement of labor-management relationships through voluntary arbitration and mediation of industrial disputes also forms an integral part of the manpower program.

In general, manpower policy shall be aimed at providing the economy with an adequate supply of trained workers.

Chapter XV

THE IMPERATIVES OF GOVERNMENT POLICY AND PUBLIC ADMINISTRATION

1. The goals we seek and the present condition of the Philippine economy make it essential for Government to accomplish the following:

a) Establish a new, more stable base and a favorable climate for future growth.

The deceleration in the economy's expansion during the last three years indicates that the possibilities for continued progress under the existing framework have been exhausted. The country must find a new dynamic and a fresh climate for enterprise.

b) Distribute the burdens of adjustment equitably.

The establishment of a new complement of policies necessitates adjustment—the beneficiaries of older policies must suffer the burden of losing benefits. It is incumbent on government to anticipate and measure the costs of adjustment, and to distribute its burdens in an optimal fashion.

c) Protect the gains of Filipino industries so far and assist them in adjusting to the new policies.

d) Provide inducements and assistance to industry in general and protection to Filipinos for the achievement of future growth.

e) Growth will mean gains and new benefits. It is incumbent on government to ensure the equitable distribution of gains from progress—so that labor shall participate with management and capital, the farm with the factory and the trader, the barrio with the town and city in the fruits of progress.

2. The immediate programs that give substance to these objectives are:

a) The decontrol program which shall accomplish a two-fold purpose.

1) Adjust and unify the exchange rate in order to establish a more beneficent relationship between domestic costs and world prices and put our domestic producers in a stronger competitive position with the rest of the world.

2) Dismantle the present system of direct allocation of foreign exchange among individual users and thereby eliminate the cumbersome regulations and red tape that hamstring exporters, importers and domestic producers, create

economically irrational and wasteful patterns of resource allocation and provide opportunities for illegal and immoral exactions on private business.

b) The establishment of an alternative machinery for accomplishing the other legitimate objectives of exchange controls, such as, rational allocation of foreign exchange according to essentiality of uses, the protection of domestic industries against undue external competition, and the assistance to Filipino businesses. This machinery must encompass the entire arsenal of government instruments—monetary policy, fiscal and tax policies, commercial policy tools administered by the Tariff Commission, the Department of Commerce and Industry, the Department of Finance, the Department of Foreign Affairs, the Government Financial Institutions and the National Economic Council. The full extent of the powers granted by law to the President and to these agencies shall be used to soften the impact of decontrol and exchange rate adjustment on the consumption levels of middle and low income groups and to assist Filipino business in adjusting their operations to the new cost and price situations that will necessarily emerge.

There must be no illusions about the decontrol program. Many of the adjustments will be painful. But the resulting framework will be one that will give a stable basis and a more realistic and sober impetus to a new growth trend which will extend much farther into the future. The new dynamic for economic progress that will emerge will be of a more genuine quality and will provide a richer and longer lasting energy for national progress.

c) The Executive branch will attempt to use the powers and authorities it now possesses to achieve maximum effectiveness and optimum coordination in the pursuit of these programs. It will be necessary to seek some changes in basic statutes. For this, the assistance, understanding and cooperation of Congress will have to be secured.

3. The restoration of a larger degree of freedom of enterprise in the country does not remove from Government the obligation to exercise economic leadership. On the contrary, the leadership of Government becomes all the more important. Its exercise must be upright and more firm, more imaginative and far more dexterous.

The first prerequisite of such a leadership is an effective organization for setting meaningful goals and consistent, stable economic policies.

The second prerequisite is to ensure coordination among the manifold branches of Government and remove conflicts and inconsistencies between avowed goals and day-to-day operations. These conflicts are wasteful of effort and energies, confusing and irritating to all who deal with Government. They can become serious bottlenecks to investment, production and trade.

In the past, the coordination of various departments and agencies in the Executive Branch of Government in the preparation and implementation of Government economic programs or in the formulation of economic policies has been most deficient. The National Economic Council was presumably charged by law with the obligation of preparing the economic program of the Government. The Monetary Board of the Central Bank, however, prepared its own programs and formulated its policies on credit and foreign exchange quite independently. The Budget Commission prepared a fiscal program which did not necessarily reflect priorities consistent with those of the National Economic Council's, the Government financial institutions pursued their own lending programs and the regular departments of the executive branch carried on their day-to-day business in accordance with guiding policies and objectives not necessarily consistent with those established by the other agencies.

As a result, the Government becomes a source of confusion and irritation rather than a source of inspiration, stability and leadership.

In order to change this, two things are required: First, a change in concepts of organization and procedures; second, a change of attitudes, outlook and spirit in the men who implement the authorities and powers of the government's branches.

The strategic role of the Government as defined in this program underscores the need for increasing its capacity to plan, coordinate, implement and evaluate its policies and projects. Administrative reforms are therefore proposed.

Problems of Public Administration

The *basic problems* of public administration are the following:

1. Unemployment and rapid population growth increase the pressures for government employment in violation or circumvention of civil service laws and merit standards. The spoils system in turn contributes to inefficient management, demoralization of career civil servants and corrupt practices. In the face of limited employment opportunities elsewhere the career civil servant is vulnerable to political interference in the performance of his tasks.

2. Rampant official corruption exists. This is encouraged by economic controls, red tape, partisanship, poor pay, high standards and cost of living, and a breakdown of moral standards in the community. Responsible officials often find themselves powerless to discipline errant subordinates, because of lack of final authority, and again, political meddling.

3. Past attempts at comprehensive economic and social development planning have failed to secure the necessary presidential, political, administrative and citizen support. Defects in the organization structure for planning call for the decentralization of the planning function to various government agencies and local governments as well as to regional development bodies. There is need to clarify the planning concept and the respective roles of government agencies engaged in development planning and administration.

4. The realization of policy objectives is often defeated by a legalistic and control-minded system of management. Complicated legal procedures and internal rules actually fail to stop irregularities in government transactions. On the contrary, it seems that much of the red tape is intentional, because shortcuts are constantly being made for a price and irregularities usually involve many of those participating in the cumbersome and time-consuming process. The waste of government funds and time and the loss of goodwill of the public are incalculable.

5. There is lack of coordination in the initiation of new programs and the agencies to take care of them. Individualistic administrators, in alliance with similarly individualistic legislators, are able to launch their pet projects with little or no relation to top policy priorities of the national administration. There appears to be no effective system for setting and enforcing over-all priorities in the allocation of revenues to the various programs of the Government. On the other hand, policy-makers and administrators normally tend to expand their spheres, often in imitation of the governments of highly industrialized countries.

6. The standards of administrative leadership in many agencies are low. However, this is not always brought about by political appointments, which may actually invigorate the career staff. The latter may be operating under a so-called merit system that actually puts a premium on seniority alone, resulting in the advancement of loyal but mediocre men. In certain agencies competent, trained and experienced staff members are properly placed or appreciated.

7. In more than a few instances, management arms of the Government, such as the General Auditing Office and the Bureau of Supply Coordination overstep their bounds to actually exercise authority over the management of substantive programs, without, of course, assuming responsibility for results. Considerable energy and time, and therefore money, are expended in trying to satisfy the demands of irresponsible supervisors.

8. A tendency to centralize or "pass the buck upwards" is widespread in the government. The resulting centralization at the highest administrative rungs, and especially in Malacañang, compounds

the internal red tape in the department and agencies. Again, the delays consume valuable time and resources and breed graft. Worse, it discourages initiative and a sense of responsiveness at the lower levels. The magnitude of the resulting problem is suggested by the farflung national administration and the dependence of the local governments upon the national government.

9. Policy-makers in the Executive Branch and in Congress need more adequate policy and technical staffs to assist them. There is probably an excess of clerical, custodial and administrative personnel in relation to technical and service staffs in a great number of agencies. Moreover, in certain service agencies a disproportionate part of the total staff remain in Metropolitan Manila.

10. Local governments are generally weak in finance and personnel. Even the more prosperous provinces and cities are not able to keep a substantial share of the revenues they collect. Local government chief executives in these provinces and cities do not even enjoy authority to manage their offices effectively. The only participation of local government executives in economic and social development planning is their work as chairman of local community development councils. Here, their effectiveness is sharply curtailed by the very limited funds at their disposal.

11. In spite of the creation of the Council of Administrative Management, there has been no effective central machinery for the systematic improvement of administrative organization and management in the government. In absence of strong administrative leadership in the past, management improvement agencies like the Management Service, the Civil Service Commission, the Presidential Committee on Administrative Performance Efficiency (PCAPE), and the U.P. Institute of Public Administration have been operating very much independently of each other.

Administrative Reforms

Here are the *administrative reforms* recommended:

1. The economic development program should be the integration of departmental and agency plans and programs. Since planning and execution are interrelated and continuous operations, primary responsibility for planning rests with agencies concerned with economic and social development activities. The national planning agency, the NEC or its successor agency, should be stripped of operating responsibilities and shall confine its role to (1) providing common concepts and methods to guide agency and regional planning; (2) setting statistical standards; (3) integrating plans and programs of departments into the national economic development plan or program and providing periodic review and evaluation of that program.

The National Economic Council should eventually be composed of full-time experts and specialists of national stature. Its chairman should enjoy the president's fullest confidence as the Government's highest economic adviser. He shall have no veto authority over heads of departments and agencies. Through the President, the Chairman of the NEC shall exercise only the authority of expert advice and technical assistance, reminding operating officials that their policies and programs are not in keeping with the integrated economic development program.

2. The Cabinet shall cease to behave as a national board of directors. Its primary function should be that of an advisory body to help the President reach policy decisions and as a coordinating body in the implementation of the various departmental and agency programs. It is the responsibility of the department and agency head to prepare and implement his departmental plans.

3. The Central Bank should continue in its task of planning and implementing monetary and credit policies, but this should be closely coordinated with the work of the National Economic Council. The President should likewise use his authority and influence to bring the government financial institutions and the government corporations to adapt their policies and operations to the over-all economic development program.

4. The Budget Commission shall act as "Comptroller of the Government" and as principal agency for guiding the *direct* participation of government in the implementation of the integrated economic development program. It shall set and enforce priorities in government current expenditures and in capital programs.

5. As recommended in Chapter VII, Foreign Economic Policy Council headed by the Secretary of Foreign Affairs shall be created to formulate and carry out the government's foreign economic policy. This Council shall be composed of the secretary of commerce and industry, the secretary of finance, and the governor of the Central Bank, and (the secretary of economic coordination). An inter-departmental technical committee shall service the cabinet committees. Its members shall be drawn from the technical staffs of the agencies represented in the Council.

6. Regional development authorities such as the Mindanao Development Authority and the Cagayan Valley Authority should be given increasing authority and financing to plan and implement regional development schemes. In view of the rapid urbanization and the growth of commerce and industry within its area, a Manila Metropolitan Development Authority might be desirable.

7. The community development planning being carried out by provincial and municipal community development councils shall be gradually widened to include economic planning. Local government executives may be assisted by technicians from the National Economic Council in the conduct of economic surveys and in the training of their own technical staff. Local governments will also be assisted in obtaining loans for development purposes.

8. The President will take direct personal and official interest in a program for the systematic improvement of public administration. In place of, or in addition to, the present Council of Administrative Management, the President will assign a senior assistant on administrative management who shall be directly responsible to him for stimulating, coordinating, and executing a continuing program for improving organization and management throughout the Executive Branch. To give the President full continuing authority for the assumption of these new responsibilities, the President will seek appropriate legislation to enable him to reorganize any department or agency, subject only to the usual control of Congress over the executive budget. The presidential assistant on administrative management, in cooperation with the NEC chairman, shall help screen all proposals on new administrative agencies. The President may delegate to the heads of departments and agencies the authority to draw up plans for reorganization.

9. Immediate steps will be taken towards the delegation of appropriate authority and responsibility from the President to the department heads, to the heads of offices, and so on down the line. As a result, only major policy and political problems should be decided at the departmental or presidential level. The President shall ask all department and agency heads to identify all the decisions that can and should be delegated to subordinate officials. The necessary executive orders, laws and circulars should be prepared. Management analysts will be asked to help to further simplify procedures. The public should be given full, written and free information on how they may obtain the services they seek in every government office. Appropriate time limits should be prescribed for the rendering of specific services to the public.

10. Under the concept of the new administration, the President and key administrators at all levels will set the example for integrity, dedication and simple living. The Anti-Graft Law and related laws governing official behavior will be enforced. Decentralization, and simplification and publication of procedures, should reduce the delays and uncertainties that breed graft. All pending and recently completed government transactions shall be publicized fully in the major newspapers.

11. Department and agency heads shall be authorized to discipline and remove for cause incompetent or venal officials and employees. Appeals to the Civil Service Board of Appeals shall be limited to a breach of prescribed standards and procedures; they should be settled within a given time limit.

12. To the extent feasible, the salaries of administrators and technical staffs shall be raised to levels commensurate with their duties and responsibilities, and in relation to the lower ranks which have been previously adjusted (by minimum wage laws and salary standardization). The raising of salaries of constitutional officers, which somehow act as ceilings on the pay of subordinate administrators and technical staff, will also be considered.

13. The proper place and function of management arms or auxiliary staffs will be defined and observed, so as not to impede the work of operating officials. Specific and prompt action is needed with respect to the General Auditing Office and the Department of General Services which tend to encroach upon or block departmental or agency operations.

14. The career service and merit system shall be extended upward to include the Undersecretary and equivalent ranks and downward to embrace all except the laborer and emergency employee classes.

15. The President and agency heads will attempt to maintain reasonable ratios between administrative and service personnel and between central office and field personnel.

16. Strong and progressive leadership shall be provided in the Civil Service Commission, the Department of General Services and the Budget Commission.

17. The establishment of an Executive Academy within the University of the Philippines shall be considered to conduct residential training for government executives and senior civil servants.

18. A program for local government research and training in the U. P. Institute of Public Administration shall be considered for financing. This program shall service policy-makers interested in local autonomy and administrative decentralization.

19. The training activities of departments and agencies to raise the levels of administrative standards and performance shall be strengthened and supported.

20. The repeal of existing laws that obstruct the development of a career service based on the merit system shall be studied for proposal to Congress. Reference is made to the following laws: R. A. 1079 (making civil service eligibilities permanent and retroactive),

R. A. 1080 (granting civil service eligibility to those who have passed bar and board examinations), R. A. 1184 (permitting conversion of the bar or board eligibilities to the general grade eligibilities), and R. A. 557 (requiring erring policemen to be administratively heard by the local board or council, removing from the local executive the power to discipline his police force).

21. The WAPCO plans shall be continually updated to be realistic and equitable and those which are meritorious will be implemented immediately.

22. Special attention will be paid to the administration of the Bureau of Internal Revenue and the Bureau of Customs. The recommendations of the management teams that recently surveyed the two bureaus will be carried out. Citizen councils will be created to watch over the conduct of officials in these agencies in places where graft is likely to be committed.

23. The measures recommended by the Tax Commission to put more teeth into tax laws and increase tax collections shall be studied and when found desirable, implemented.

24. A concrete program shall be developed for the systematic relocation of government agencies and offices in the capitol city.

Within limits, the Government will provide office facilities to professional associations of government personnel which aim to promote the effectiveness of their individual members in contributing to administrative management.

ANNEX—*New Taxes: Excerpts from the Report on Philippine Economic growth by the International Bank For Reconstruction and Development.*

188. Thus there remains a gap to be filled by increased taxation of around ₱1,500 million. Philippine Government revenue as a proportion of G.N.P. is low compared with other less developed countries. The average ratio for the last five years is 10% in the Philippines compared to more than 20% in Burma, Ceylon and Taiwan. More than one-third of Philippine tax revenue is derived from imports. There are no export taxes. The personal income tax plays a relatively minor role owing to (i) the high level of exemptions and deductions, (ii) widespread evasion and (iii) low marginal rates in the middle income brackets. The corporate tax is gaining weight with growth in the manufacturing sector and expiration of exemptions. Revenue from agricultural land taxes has been stagnating at a very low level.

189. The over-all structure of taxation is such that revenue receipts are not responsive to increases in income. As already noted, revenue receipts at existing rates may fail to keep pace with G.N.P. between fiscal 1960 and 1967. This implies a marginal tax rate lower than the average, on the basis of existing legislation. If no new taxes are enacted, the Philippine Government will have to be content with playing a receding role in economic activity. Given the needs for public expenditures and capital transfers already outlined, this outcome would lead to a most serious weakening of the economic and social base of the Philippine economy. If the Philippine Government wants to follow purposive economic policies, tax revenues must be raised significantly.

190. Achieving the suggested target of ₱1,500 million in new taxes implies a marginal tax rate, in relation to GNP, of 22% and an average rate in 1966–67 of 14% compared to 11.5% in 1960–61. Even after the implementation of this program, the Philippine tax effort will remain modest compared to neighboring Asian countries which have lower per capita incomes. Seen in the prespective, the target suggested by the Mission appears realistic. If the Philippines implements this goal with political determination it will be demonstrating a national willingness to bear sacrifices in the pursuit of socio-economic progress.

191. The outline of a desirable tax reform is discernible, although specific measures must await a thorough investigation. The devaluation of the peso which is now in process involves a relative shift in income from the manufacturing and trade sectors to the agricultural and mining interests. In addition, exporters of sugar receive a dollar price in the U.S. market which is well above the world market price. The Mission recommends that a part of this windfall gain should be captured by the public sector, in the form of export taxes on particular commodities. We suggest differential taxes rather than a uniform export tax, on the grounds that the latter is detrimental to an appropriate allocation of resources. Large expansion in the export volume of sugar [8] and logs (and probably of abaca and copra) is likely to yield returns to the national economy much lower than equivalent increases in exports of other agricultural, mineral or manufactured products. The Mission is unable to recommend the precise form and rate of specific taxes, but our impression is that altogether export taxes can yield at least ₱600 million and possibly much more over the period of the program.

192. The long-term policy objective must be to place increasing reliance on the taxation of incomes and transactions in the domestic sector of the economy rather than the foreign trade sector. The

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[8] Beyond that for U.S. market.

secular growth of national income is likely to be more rapid than imports and exports. Secondly, the value of foreign trade transactions can be expected to show greater fluctuations than home production. For both these reasons, tax revenues would show greater growth and reduced instability if they were less dependent on foreign trade. Greater reliance must therefore be placed on the corporate and personal income taxes, inheritance and state duties, the real property tax and sales taxes.

193. The present rate of the corporate tax—22% of net income up to ₱100,000 and 30% on income above this level—is low, compared to India, Pakistan (45%) or U.S.A. (52%). The actual collection in fiscal 1960 was only 21% of declared corporate net income. This relatively low effective rate would be vindicated from the economic point of view if a large part of post-tax profits were reinvested. Available evidence indicates that this did not take place in the past. If reinvestment continues to be low even after the devaluation, the rate of corporate profit tax should be raised. Provided and effective tax rate is raised to 30%, the yield might increase by as much as ₱400 million during the plan period.

194. The personal income tax is not yet a mass tax. More than 96% of Filipino families are legally excluded from the purview of the tax. Illegal tax evasion is practiced extensively. The actual number of returns is only half what it ought to be. Income taxed in fiscal 1960 was about 4% of total personal income. The effective tax rate paid by middle income brackets (₱7,000 to ₱10,000 family gross income) was substantially below 1%. The Mission recommends an upward revision of the rate structure, as well as vigorous steps to reduce illegal evasion. Tentative calculations suggest that such a reform may increase yield by more than ₱100 million between fiscal 1963 and 1967.

195. Another obvious possibility for increased revenue is a higher tax on gasoline. At 8 centavos a liter, the Philippine gas tax is among the lowest in the world. An increase to around 12 centavos would yield increased revenue of around ₱260 million for the period as a whole.

196. Finally there are very strong economic and social grounds for much higher taxes on real estate—both urban and rural. In 1956–60, real property taxes yielded ₱265 million. We would suggest that with better enforcement, faster progress on land surveys and title registration urged in the section on Agriculture, and some increase in rates, the yield of this tax might well be increased to as much as ₱500 million in the period, as against the ₱320 million projected on the basis of existing tax rates and records of enforcement.

197. In the full report, the Mission will have additional suggestions regarding the tax system.

Programmed Philippine Economic Growth

Fiscal Year 1963–1967

(Millions of pesos at 1960 prices)

	FY 1960 (Actual)	1963	1964	1965	1966	1967	Total 1963–67	1967 as % of 1960
Gross Product	11,822	13,882	14,701	15,627	16,674	17,841	78,725	50.9
Terms-of-Trade effect (in relation to 1960)								—
Gross Income	11,822	13,882	14,701	15,627	16,674	17,841	78,725	50.9
Net Inflow of Foreign Capital	(47)	138	176	218	266	356	1,154	—
Available Goods and Services	11,775	14,020	14,877	15,845	16,940	18,197	79,879	54.5
Total Consumption	10,318	12,077	12,672	13,345	14,106	14,986	67,186	—
Private Consumption	9,304	10,901	11,427	12,027	12,710	13,512	60,577	45.2
Government Current Expenditures	1,014	1,176	1,245	1,318	1,396	1,474	6,609	45.4
Gross Domestic Investments	1,457	1,943	2,205	2,500	2,834	3,211	12,693	120
Fixed Investments		1,830	2,086	2,373	2,699	3,065	12,053	—
Net Change in Inventories		113	119	127	135	146	640	—
Gross Domestic Savings	1,504	1,805	2,029	2,282	2,568	2,855	11,539	—
Exports	1,360	1,404	1,442	1,478	1,514	1,550	7,388	—
Imports	1,318	1,542	1,618	1,696	1,780	1,906	8,542	45
Total Capacity for External Payment		860	909	953	1,003	1,071	4,796	—
Total Capacity to Import (Including Donations Received)		821	859	898	940	1,003	4,521	—
	1960			*Averages, 1963 to 1967*				
Coefficient of Gross Investments*	12.32%			16.10%				
Gross Domestic Savings Rate*	12.72%			14.66%				
Capital-Output Ratio				2.66				
Annual Increases in:								
Gross Domestic Savings			224	253	286	287		
Inflow of Capital			38	42	48	90		

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*In relation to Gross Product.

Gross Domestic Product by Factor Shares
Fiscal Year 1963–1967
(Millions of Pesos at 1960 Prices)

	FY 1960 (Actual)	1963	1964	1965	1966	1967	Total 1963 to 1967
1. Compensation of employees	4,239	4,967	5,176	5,472	5,781	6,152	27,548
2. Enterpreneurial and property income of persons	5,394	6,322	6,652	6,964	7,358	7,829	35,125
3. Private corporate income	543	700	777	861	954	1,059	4,351
4. Property income of government	77	96	103	109	116	122	546
5. TOTAL: National Income at Factor Cost	10,253	12,085	12,708	13,406	14,209	15,162	67,690
6. Depreciation	583	762	869	989	1,125	1,278	5,023
7. Indirect taxes less subsidies	846	933	1,014	1,112	1,202	1,237	5,498
8. TOTAL: Gross National Product	11,682	13,780	14,591	15,507	16,536	17,677	79,211
9. Net remittances of profits and interest	140	102	110	120	138	164	774
TOTAL: Gross Domestic Product	11,822	13,882	14,701	15,627	16,674	17,841	78,725

PHILIPPINES: *Private Appropriation Account*
Fiscal Year 1963–1967

(Million Pesos at 1960 Prices)

	1963	1964	1965	1966	1967	Total 1963–1967
Allocation:						
Private Consumption Expenditures	10,901	11,427	12,027	12,710	13,512	60,577
Direct Taxes	524	559	588	636	708	3,015
Private Savings	734	797	870	945	1,027	4,373
Total Private Outlay	12,159	12,783	13,485	14,291	15,247	67,965
Sources:						
Compensation of employees	4,967	5,176	5,472	5,781	6,152	27,548
Entrepreneurial and Property Income of Persons	6,322	6,652	6,964	7,358	7,829	35,125
Transfer Payments	132	140	150	160	169	751
Net Donations from Abroad	38	38	38	38	38	190
Total: Personal Income	11,459	12,006	12,624	13,337	14,188	63,614
Other Private Income [Private Corporate Income][10]	700	777	861	954	1,059	4,351
Total Private Income	12,159	12,783	13,485	14,291	15,247	67,965

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[10] Includes reinvested earnings of foreign corporations in the Philippines.

PHILIPPINES: *Government Appropriation Account*[11]
Fiscal Year 1963–1967

(Millions of Pesos at 1960 Prices)

	FY 1963	1964	1965	1966	1967	Total 1963–1967
Government Current Expenditure	1,176	1,245	1,318	1,396	1,474	6,609
Transfer Payments	132	140	150	160	169	751
Government Savings	283	329	379	436	462	1,889
Total Outlay	1,591	1,714	1,847	1,992	2,105	9,249
Indirect Taxes Less Subsidies	933	1,014	1,112	1,202	1,237	5,498
Direct Taxes	524	559	588	636	708	3,015
Property Income of Government	96	103	109	116	122	546
Net Donations From Abroad	38	38	38	38	38	190
Total Receipts	1,591	1,714	1,847	1,992	2,105	9,249

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[11] Both local and National Government.

NOTE.—The account has been adjusted to eliminate incremental revenues and expenditures due to a change in the exchange rate, so that the account may be comparable with the other accounts constructed on the basis of a 2 to 1 exchange rate. This exchange rate has been used to so as not to be involved in complicated estimates of price effects.

PHILIPPINES: *Combined Capital Account*
Fiscal Year 1963–1967

(Million of Pesos at 1960 Prices)

	1963	1964	1965	1966	1967	Total
Savings						
Private Savings	734	797	870	945	1,027	4,373
Government Savings	283	329	379	436	462	1,889
Depreciation	762	869	989	1,125	1,278	5,023
TOTAL: GROSS DOMESTIC SAVINGS	1,779	1,995	2,238	2,506	2,767	11,285
Investments						
Gross Domestic Investments	1,943	2,205	2,500	2,834	3,211	12,693
Net Lending Abroad	(164)	(210)	(262)	(328)	(444)	(1,408)
TOTAL: DOMESTIC AND FOREIGN INVESTMENTS	1,779	1,995	2,238	2,506	2,767	11,285

PHILIPPINES: *Rest of the World Account*
Fiscal Years 1963–1967

(Million of Pesos at 1960 Prices)

	FY 1960 (Actual)	1963	1964	1965	1966	1967
Receipts						
Exports of Goods and Non-factor Services	1,360	1,404	1,442	1,478	1,514	1,550
Net Factor Income from Rest of the World	(140)	(102)	(110)	(120)	(138)	(164)
Net Donations to the Philippines	146	76	76	76	76	76
a) Government	44	38	38	44	38	38
b) Private	102	38	38	38	38	38
TOTAL CURRENT RECEIPTS	1,366	1,378	1,408	1,434	1,452	1,462
Payments						
Imports of Goods and Non-factor Services	1,312	1,542	1,618	1,696	1,780	1,906
Net Lending Abroad	54	(164)	(210)	(262)	(328)	(444)
TOTAL CURRENT PAYMENTS	1,366	1,378	1,408	1,434	1,452	1,462

PHILIPPINES: *Balance of Payments* *Fiscal Year 1963–1967*

(U.S. $ Million)

	1963	1964	1966	1967	1965	Total 1963 to 1967
Exports of Goods and Services	702	721	739	757	775	3,694
Merchandise Export Receipts	552	571	589	607	625	2,944
Inflow [18]	150	150	150	150	150	750
Imports of Goods and Services	771	809	848	890	953	4,271
Balance on Current Trade Account	(69)	(88)	(109)	(133)	(178)	(577)
Net Donations Received	38	38	38	38	38	190
Net Remittances of Profits	44	44	44	44	44	220
Net Inflow of Long Term Capital	125	144	165	189	234	857
Inflow [18]	158	188	214	246	296	1,102
Outflow	26	33	33	32	24	148
Servicing of Foreign Investment and Stabilization Fund [19]	7	11	16	25	38	97
Compensatory Balance of Payments	50	50	50	50	50	250
Net Short-term Capital Movements	....	....	....	....	....	....
Net Addition to International Reserves	50	50	50	50	50	250

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[18] PL 480 (of which $22 million is payable in pesos)	94	94	94	94	94	470
Project Commodity Loan and/or Reparations Loan	64	50	50	50	50	264
Others	....	44	70	102	152	368
[19] Gross Inflow of Foreign Investment (Non PL–480 at 6%)	....	4	9	17	29	
Stabilization Fund ($83 million from IMF and rest at 5%)	7	7	8	8	8	

Gross Fixed Investment Requirements by Industrial Sector, FY 1963–67

(In thousand pesos: US $1.00 = ₱2.00)

Sector	Private			Government			Total		
	Pesos	Dollars	Total in Pesos	Pesos	Dollars	Total in Pesos	Pesos	Dollars	Total in Pesos
Agriculture	549,330	95,600	749,630	9,000	29,780	687,570	558,340	125,380	809,100
Mining	348,206	17,824	383,854	20	7,563	15,146	348,226	25,387	399,000
Manufacturing	2,863,302	363,140	3,589,582	86,301	125,000	336,301	2,949,603	488,140	3,925,883
Construction	933,200	104,800	1,142,800	1,038,250	124,160	1,286,570	1,971,450	228,960	2,429,370
Transport and Communication	1,591,700	652,820	2,897,340	713,180	194,570	1,102,320	2,304,880	847,390	3,999,660
Other Sectors	489,987		489,987				489,987		489,987
Total	6,775,725	1,234,184	9,244,094	1,846,761	481,073	2,808,907	8,622,486	1,715,257	12,053,000

Gross Fixed Investments in Agriculture, Livestock, Fishing and Forestry

FY 1963–1967

(In thousand pesos: US $1.00 = ₱2.00)

Sector	Private Investment			Government			Total		
	Pesos	Dollars	Total in Pesos	Pesos	Dollars	Total in Pesos	Pesos	Dollars	Total in Pesos
I. Food Crops:	148,000	....	148,600	....	24,400	48,800	148,600	24,400	197,400
Rice	102,800	....	102,800	....	24,400	48,800	102,800	24,400	151,600
Corn	25,000	....	25,000	....	....	....	25,000	....	25,000
Others (Tubers, etc.)	20,800	....	20,800	....	....	....	20,800	....	20,800
II. Fisheries	113,110	45,000	203,110	1,250	320	1,890	114,360	45,320	205,000
III. Livestock	128,900	9,600	148,120	7,750	5,060	17,880	136,650	114,660	166,000
IV. Other Crops: Commercial	46,000	....	46,000	....	....	....	46,000	....	46,000
Fruits, vegetables	43,000	....	43,000	....	....	....	43,000	....	43,000
Cotton and other fibers	1,000	....	1,000	....	....	....	1,000	....	1,000
Others	2,000	....	2,000	....	....	....	2,000	....	2,000
V. Export Crops	100,000	3,000	106,000	....	....	....	100,000	3,000	106,000
Sugar	50,000	3,000	56,000	....	....	....	50,000	3,000	56,000
Coconut	30,000	....	30,000	....	....	....	30,000	....	30,000
Abaca	10,000	....	10,000	....	....	....	10,000	....	10,000
Tobacco	10,000	....	10,000	....	....	....	10,000	....	10,000
VI. Forestry	12,700	38,000	88,700	....	....	....	12,700	38,000	88,700
Totals	549,310	95,600	740,580	9,000	29,780	68,570	558,310	125,380	809,100

Gross Fixed Investments In Mining, Fiscal Year 1963–67

(In Thousand Pesos: US $1.00 = ₱2.00)

Sectors	Private			Government			Total		
	Pesos	Dollars	Total in Pesos	Pesos	Dollars	Total in Pesos	Pesos	Dollars	Total in Pesos
I. Exploration									
Oil	45,171	2,410	49,991	5	6,787	13,579	45,175	9,198	63,570
Metals	13,440	940	15,320	----	----	----	13,440	940	15,320
II. Development									
A. Metals									
1) Precious metals	48,815	2,387	53,588	----	----	----	48,815	2,387	58,588
2) Base metals	189,198	10,656	210,510	----	----	----	189,198	10,656	210,510
B. Non-metals	51,585	1,430	54,445	15	776	1,567	51,600	2,206	56,012
Total	348,296	17,824	383,854	20	7,563	15,146	348,226	25,387	399,000

Total Gross Fixed Investments In Manufacturing, Fiscal Year 1963–67

(In Thousand Pesos: US $1.00 = ₱2.00)

Sectors	Private			Government			Total		
	Pesos	Dollars	Total	Pesos	Dollars	Total	Pesos	Dollars	Total
I. Metal Products	556,570	435,140	1,426,850	69,741	120,000	309,741	626,311	555,140	1,736,591
A. Basic metals	179,875	92,862	365,599	62,959	100,000	262,959	242,844	192,862	628,568
B. Metal products	73,618	36,097	145,812	----	----	----	73,618	36,097	145,812
C. Machinery manufacture	39,777	13,131	66,039	6,772	20,000	46,772	46,549	33,131	112,811
D. Other related industries	849,400	----	849,400	----	----	----	849,400	----	849,400
II. Chemicals	252,385	100,900	452,285	----	----	----	252,385	50,000	452,285
III. Textiles	116,269	31,438	179,572	----	----	----	116,269	31,438	179,572
IV. Food Processing	149,145	15,000	179,145	----	----	----	149,145	15,000	179,145
V. Non-Metallic Minerals	77,289	48,989	175,267	----	----	----	77,289	48,989	175,267
Cement	18,062	15,251	48,564	----	----	----	18,062	15,251	48,564
Ceramics	17,972	16,500	50,972	----	----	----	17,972	16,500	50,972
Glass	19,692	1,800	23,292	----	----	----	19,692	1,800	23,292
Others	21,563	15,438	52,439	----	----	----	21,563	15,438	52,439
VI. Wood Processing	65,760	22,585	110,930	----	----	----	65,760	22,585	110,930
(Lumber, plywood and veneer, etc.)				----	----	----			
VII. Cottage Industries	58,300	16,149	90,598	----	----	----	58,300	16,149	90,598
VIII. Pulp and Paper	93,555	61,484	216,523	----	----	----	93,555	61,484	216,523
IX. Miscellaneous and Other Industries	536,440	----	536,440	16,560	5,000	26,560	563,000	----	563,000
Total	2,863,202	863,140	3,589,582	86,301	125,000	336,301	2,949,603	488,140	3,925,883

Gross Fixed Investments In Construction, Transport and Communication
Fiscal Year 1963–1967
(In Thousand Pesos: US $1.00=₱2.00)

	Private			Government			Total		
	Pesos	Dollars	Total in Pesos	Pesos	Dollars	Total in Pesos	Pesos	Dollars	Total in Pesos
I. Construction	933,200	104,800	1,142,800	1,038,250	124,160	1,286,570	1,971,450	228,960	2,429,370
Residences and housing	405,000	20,000	445,000	8,500	1,500	11,500	413,500	21,500	456,500
Buildings	128,000	3,000	140,000	158,000	13,000	178,000	286,000	16,000	318,000
Plants	150,200	69,800	289,800				150,200	69,800	289,800
Roads and highways				265,000	15,000	295,000	265,000	15,000	295,000
Portworks				60,500	6,500	73,500	60,500	6,500	73,500
Airports				60,000	9,000	78,000	60,000	9,000	78,000
Irrigation				148,300	12,960	174,220	148,300	12,960	174,220
Water Supply				275,750	59,400	394,550	275,750	59,400	394,550
Flood Control				63,200	6,800	76,800	63,200	6,800	76,800
Others	249,000	12,000	273,000				249,000	12,000	273,000
II. Transport and Communication and Power	1,591,700	652,820	2,897,340	713,180	194,570	1,102,320	2,304,880	847,390	3,999,660
a. Transportation:									
Railroads				126,000	30,000	186,000	126,000	30,000	186,000
Motor	1,106,700	423,320	1,953,340				1,106,700	423,320	1,953,340
Ship	315,000	163,800	642,600				315,000	163,800	642,600
Air	80,000	38,700	157,400				80,000	38,700	157,400
b. Communications:									
Telecommunications				71,730	18,720	109,170	71,730	18,720	109,170
Telephones	90,000	27,000	144,000				90,000	27,000	144,000
c. Power				515,450	145,850	807,150	515,450	145,850	807,150

National Income at Factor Cost by Industrial Origin, FY 1963–1967

(Millions of Pesos at 1960 Prices)

Sectors	FY 1960 (Actual)	FY 1963	FY 1964	FY 1965	FY 1966	FY 1967
Agriculture	3,472	3,702	3,835	3,973	4,116	4,257
Industry	1,970	2,542	2,819	3,126	3,467	3,850
Construction	324	408	450	498	550	607
Basic Facilities, trade and services	4,488	5,433	5,604	5,809	6,067	6,448
National Income	10,254	12,085	12,708	13,406	14,209	15,162

Derivation of Private Corporate Income FY 1963–1967

(Million pesos)

	FY 1963	FY 1964	FY 1965	FY 1966	FY 1967
Industry	2,542	2,819	3,126	3,467	3,850
Construction	408	450	498	550	607
Total	2,950	3,269	3,624	4,017	4,457
Combined Index: 1960 = 2,294 (1960 = 100)	1.286	1.425	1.580	1.751	1.943
Private Corporate Income 1960 = 545	700	777	861	954	1,059

Net Change in Inventories by Sector FY 1963–1967

(Million pesos)

	1963	1964	1965	1966	1967	Total
Agriculture	31	33	35	37	40	176
Mining	4	4	4	4	5	21
Manufacturing	59	62	67	72	77	337
Trade	19	20	21	22	24	106
Total	113	119	127	135	146	640
Total Fixed Investments	1,830	2,086	2,373	2,699	3,065	12,156

Chapter VII

FISCAL POLICY AND THE GOVERNMENT SECTOR

(Millions of Pesos at 1960 Prices)

National Government: Fiscal Resources and Expenditures, FY 1963–67[14]

Item	1963	1964	1965	1966	1967	Sum
1. Outlays	1,629	1,723	1,882	2,024	2,157	9,415
2. Current outlays	1,077	1,138	1,197	1,268	1,329	6,009
3. Debt Service	98	103	118	131	146	596
4. Capital outlays	454	482	567	625	682	2,810
5. Original Budget	220	234	275	303	331	1,363
6. Additional	234	248	292	322	351	1,447
7. Resources	1,629	1,723	1,882	2,024	2,157	9,415
8. Reparations and Foreign loan	85	87	63	50	50	335
9. Bonds	75	64	60	50	30	279
10. Current Receipts	1,469	1,572	1,759	1,924	2,077	8,801
11. Present Rates:	1,055	1,124	1,200	1,282	1,385	6,046
12. Direct taxes	268	296	327	360	398	1,649
13. Indirect taxes	675	710	747	788	844	3,764
14. Property Income	112	118	126	134	143	633
15. Others	414	448	559	642	692	2,755

NATIONAL GOVERNMENT: *Capital Budget, FY 1963–1967*

(Millions of Pesos at 1960 Prices)

Item	FY 1963–1967
Gross Public Investment	2,810
Financing:	
Savings from current revenues at present rates	40
Additional revenue from change in exchange rate	500
Depreciation	500
Reparations, foreign loans and bonds issues	600
Additional direct tax revenue	500
Other sources	670

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[14] Items (1) to (5), (8) and (9) were obtained from the Budget Commission estimates by providing for constant 1960 prices. Item (6) was derived from the government gross investment required to support the Program. Items (12) to (14) were independently estimated and Item (15) constituted the residual item.

Distribution of Establishments with Five or More Workers and Employment in Such Establishments, By Region, 1959

Regions	No. of Establishments	Total No. of Employed	Value of Products Sold (₱1,000)	*Percent Distribution* Employment	*Percent Distribution* Value of Products Sold
Manila and Suburbs..........	476	43,675	666,186	23.53	22.88
Ilocos–Mountain Province...	21	1,747	15,233	0.94	0.52
Cagayan Valley	19	1,625	12,242	0.88	0.42
Central Luzon	149	11,207	179,100	6.04	6.15
Southern Luzon	845	84,127	1,455,524	45.33	49.99
Bicol	27	1,518	10,662	0.82	0.37
Western Visayas	85	18,362	293,009	9.89	10.06
Eastern Visayas	125	7,837	141,273	4.22	4.85
Southwestern Mindanao....	61	5,577	56,330	3.01	1.93
Northeastern Mindanao....	50	9,910	82,243	5.34	2.83
Total Philippines....	1,858	185,580	2,911,802	100.00	100.00

Feasibility of Projected Export Receipts

Commodity	Maximum Volume Exported		1949-60 FOB Prices Per Metric Ton [16]			FOB Value of Volume $ Million			
	Year	Thousand Metric Tons [15]	Lowest	Average	Highest	Lowest Price	Average Price	Highest Price	1960 Value and Actual Exports $ Million
1. Copra	1956	966	$135	$168	$203	130.4	162.3	196.1	138.6
2. Sugar	1960	1,090	109	117	122	118.8	127.5	133.5	133.5
3. Logs	1960	1,454	45	51	58	65.4	74.2	84.5	84.5
4. Lumber	1958	78	93	110	123	7.2	8.6	9.6	7.1
5. Desiccated coconut	1960	59	249	307	367	14.7	18.1	21.6	18.8
6. Coconut oil	1956	109	191	261	347	20.8	28.4	37.8	15.7
7. Abaca	1951	128	249	365	525	31.9	46.7	67.2	41.8
8. Copper concentrate	1960	165	82	120	215	13.5	19.8	35.5	18.3
9. Chromite ore	1959	799	12	19	23	9.2	15.2	18.4	17.2
10. Iron ore	1956	1,476	7	8	9	10.0	12.4	13.9	8.6
11. Canned pineapple	1952	78	138	162	234	10.8	12.6	18.2	7.4
12. Cordage	1959	6	357	439	588	2.3	2.8	3.8	3.6
13. Molasses	1960	336	10	18	29	3.2	5.9	9.8	4.8
14. Copra meal	1956	100	42	55	67	4.2	5.5	6.7	4.9
15. Leaf tobacco	1959	12	353	428	515	4.2	5.1	6.2	2.7
Total for fifteen commodities						446.6	545.1	662.8	500.4
Other commodity exports [17]						53.6	65.4	79.5	60.0
ALL COMMODITY EXPORTS						500.2	610.5	742.3	560.4
PROJECTED FOR FY 1965–66							607.0		

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[15] Except logs and lumber which are in terms of million board feet.

[16] Except logs and lumber prices in dollars per thousand board feet. Prices of iron ore and molasses and the highest sugar price to the least decimal place was used in computing the value.

[17] Estimated on the assumption of the 1960 proportion to all commodity exports.

APPENDIX I

TO THE

STATE OF THE NATION MESSAGE

OF

PRESIDENT DIOSDADO MACAPAGAL

JANUARY 22, 1962

THREE-YEAR PROGRAM

OF

ECONOMIC AND SOCIAL DEVELOPMENT

(FY 1959-60 TO FY 1961-62)

ADOPTED BY THE NATIONAL ECONOMIC COUNCIL
ON JANUARY 1, 1959

National Economic Council
Manila, Philippines

Commodity [illegible]

1. Copra [illegible]
2. Sugar [illegible]
3. Logs [illegible]
4. Lumber [illegible]
5. Desiccated [illegible]
6. Coconut oil [illegible]
7. Abaca [illegible]
8. Copper [illegible]
9. Chromite [illegible]
10. Iron [illegible]
11. Canned pineapple [illegible]
12. Cordage [illegible]
13. Molasses [illegible]
14. Copra meal [illegible]
15. Leaf tobacco [illegible]
Total for 15 principal [illegible]
Other [illegible]
All Commodities [illegible]
PROJECTED FOR FY 1960-61 [illegible]

[illegible]

APPENDIX I

TO THE

STATE OF THE NATION MESSAGE

OF

PRESIDENT DIOSDADO MACAPAGAL

JANUARY 22, 1962

THREE-YEAR PROGRAM

OF

ECONOMIC AND SOCIAL DEVELOPMENT

(FY 1959-60 TO FY 1961-62)

ADOPTED BY THE NATIONAL ECONOMIC COUNCIL
ON JANUARY 2, 1959

National Economic Council
Manila, Philippines

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Chapter I

SUMMARY AND RECOMMENDATIONS

A. Summary of the Program

Nature and approach

1. The Three Year Program of Economic and Social Development represents an outline of what is envisaged to be an orderly, uninterrupted and reasonably rapid and integrated development of the economy. It provides for new additions to the country's stock of capital through the development of agriculture, manufacturing, mining, construction, transportation and communication, power and other utilities. It aims through appropriate policies and measures at the expansion and improvement of domestic and foreign trade to create an increasing outlet for the national production and to assure the speedy and orderly flow of goods and services from the producer to consumer.

2. The Program also outlines necessary fiscal and monetary including foreign exchange and credit policies and measures designed to bring about a fairly rapid overall growth, and effect a gradual structural shift in the economy under conditions of relative monetary stability.

3. The Program includes a plan of manpower development to insure that both the short and long term needs for technical knowledge and trade skills and management capacities are met. Manpower development is recognized as a key to increasing productivity. Based on the principle that a healthy worker is generally an efficient worker, the Program seeks to improve the general health and physical well-being of the population.

4. Because economic and social development is a joint task of the government and the people not only in terms of financial contribution but also of the efforts exerted to implement the basic social objectives the Program provides for essential improvement in public administration and the expansion of community development.

5. The process of development shall be governed by a number of guiding principles which include: (a) that the yearly increases in national income shall go partly to increase capital formation and

partly to increase the consumption standards of the people: (b) that the total level of investment shall continually be increased and directed towards ultimate full employment at a rate that will not disturb monetary stability; (c) that while industrialization shall be the long-term goal, agriculture shall continue to be developed not only to establish a solid base for the country's industrialization but more immediately to effect savings in foreign exchange by producing partly the agricultural products that we now import and to relieve the pressure on the country's international reserve because of the low investment-foreign exchange ratio of agriculture; (d) that there shall be a balance in investments in producer goods and in consumer goods industries; (e) that the public overhead projects should not unduly prejudice investments in the productive sectors; (f) that there shall be a balance between investments in dollar-saving and dollar-earning industries; (g) that as much as possible foreign investments shall be limited to dollar-earning industries which Filipino investors are either unwilling or unable to undertake in view of the drain that so-called dollar saving industries undertaken by foreigners who have to repatriate profits have produced on the economy; and (h) that in the interest of national security it should be mandatory that efforts are taken to reduce to no more than 25 per cent the control of aliens in any essential or strategic productive or distributive industry.

6. As a result of the development program 950,000 workers will, during the three year period of the program, be provided with jobs. The job creation will take care of the yearly increase in the labor force and reduce the backlog of unemployed to 612,000 or only 6.17 per cent of the estimated labor force in 1962. To an undetermined extent underemployment and disguised unemployment will be improved with the greater development of agriculture and cottage and small industries.

7. The Program envisages raising national income (in real terms) from the estimated level of ₱8.7 billion for 1957 to ₱11.2 billion in 1962. With the estimated population in 1962 of 27 million, the real per capita income is expected to be around ₱417.00, or an increase of 11.2 per cent over that of 1957 which is ₱375.00.

Specific Production Goals

8. *Agriculture.* The targets for 1962 envisages the production of 8.9 million tons of food crops which shall provide 84.6 per cent of the national nutritional requirements. Rice and corn output is expected to meet the requirements for these food grains as early as 1959. Animal protein food industries which are given impetus are

expected to yield around 675,500 tons of animal products and 530,000 tons of fish which will raise self-sufficiency by 1962 to 40.9 per cent and 73.0 per cent respectively.

9. The production of export crops will be increased from 3.2 million tons in 1959 to 3.6 million tons in 1962 to support an expanding volume of exports. By that year the country expects to generate about 3 million metric tons of exportable surplus including 1,390,000 tons of copra, 1,100,000 tons of sugar and 160,000 tons of abaca.

10. Log output which is expected to be 2 million board feet by 1962, would be enough to provide raw material for the manufacture of 670 million board feet of lumber and 405 million sq. ft. of plywood and at the same time meet the export requirements to increase the country's foreign exchange earnings.

11. *Manufacturing.* In manufacturing, the 1962 production goals include among others: 166,230 tons of steel and pig iron; 1.8 million bags of cement; 14,150 tons of canned foods; 90,000 tons of flour; 10,800 tons of pulp and paper; 80 million yards of cotton textile and 2.1 million yards of ramie textile.

12. *Mining.* The mineral production program provides among others for the following targets for 1962: gold and silver, 1.6 million ounces; iron ore, 2.7 million tons; copper, 60,000 tons; and chromite ore, 850,000 tons.

13. *Public Works.* To facilitate the movement of farm products and the raw material requirements as well as the products of the factories, the program seeks to increase highway, secondary and feeder roads construction by 6,650 kilometers in order to raise the coverage of our network of roads and highways from 51,200 kilometers in 1958 to approximately 57,850 kilometers.

14. The public works program aims at the expansion of the irrigation system so that approximately 257,000 additional hectares shall be placed under irrigation by 1962. It also envisages the construction of aprroximately 6,600 classrooms to provide for the ever-increasing public school population. There is also envisaged the construction of more hospitals with a capacity of 1,000 beds.

15. To improve water supply, the program plans the construction and improvement of 98 waterworks system, the drilling of 4,200 new artesian wells and the development of 900 springs.

16. *Power.* To meet the increasing power needs for industrial and domestic purposes there is envisaged under the program the increase of the present 420,000 KW of electric power to around 754,000 KW by 1962.

17. *Transportation and Communication.* Aside from the expansion of the highway and road network, the development of transportation provides for the expansion of the Manila Railroad Company to Cagayan; the expansion and the improvement of 16 national ports; construction and improvement of 25 airports; the partial replacement of unserviceable trucks and buses and provision of spare parts for ordinary vehicle depreciation; and the replacement of obsolete interisland vessels to the extent of 26,800 gross tons and the addition of 154,000 gross tonnage to the Philippine Overseas Fleet. The development of communication provides for the expansion of the government telecommunication system with emphasis on service to the rural areas and the normal growth of the private telephone service.

18. *Housing.* The program plans the construction by the People's Homesite and Housing Corporation of 2,100 new low-cost housing units, and of a modest number of privately financed dwelling units in three years.

Financial and Foreign Exchange Requirements

19. The average yearly net outlay to implement the program is ₱1,088 million. This amount represents 10.1 per cent of the average national income for the program period. This outlay will be borne mainly (67 per cent) by the private sector and the balance (33 per cent) will be contributed by the public sector including outlays by the government and public corporations.

20. The yearly net outlays for economic and social development are to come from the yearly national income. The government's share of the development outlays will come from the following sources: from government revenues, ₱159 million or 45 per cent; public borrowing, ₱80 million or 22 per cent; reparation, ₱34 million or 9 per cent; foreign aids or grants, ₱44 million or 12 per cent; and other sources, ₱39 million or 11 per cent. The investments of the private sector is expected to come from business savings, issuance of corporate securities, foreign loans and foreign investments.

21. The investment program involves an average yearly foreign exchange outlay of $259 million or 47 per cent of the total average yearly net outlay. That of the total yearly average dollar outlay an average of $69 million will be needed by the government

sector. And the balance of $190 million will finance the capital imports of the private sector.

2. The foreign exchange requirement of the program which is recognized as crucial and a limiting factor in the pattern of development envisioned under the program is expected to come largely from external loans, settlement of Philippine omnibus items against the United States, foreign investments and from savings arising from import substitutes manufacture. On the average, $100 million of loans from the U.S. Export-Import Bank and the U.S. Development Loan Fund is expected yearly. In addition, proceeds from the omnibus claims and loans from private foreign firms on a deferred payment basis, as well as the value of foreign shares in joint ventures is expected to yield an average of $125 million.

23. These additional foreign exchange resources plus a conservative import substitution of $32 million on the average will improve the international reserves by $18 million on the average and raise it to meet the $200 million mark by 1962.

B. Important Recommendations on Policies and Measures

24. The more important aspect of the Program is not the set of goals and the estimated financial and foreign exchange outlays but the policies and measures that are designed to achieve these goals and assure that the resources of the desired magnitudes flow towards the right direction with minimum disturbance of the monetary stability. These policies and measures are, as follows:

Fiscal Policies and Measures

25. *Taxation.* In order to raise revenues from 7.7* per cent in 1957 to about 10 per cent to enable the government to finance its share of the investment program, the Internal Revenue Code should be amended and a special levy or tax of 30 per cent should be imposed on certain types of imports. These measures are expected to raise ₱300 million.

26. *Public borrowing.* Public borrowing through the issuance of bonds shall tap a yearly average of ₱118 million from government financial institutions, including the GSIS, SSS, and DBP; private financial institutions; private individuals and other sources.

27. The proceeds from the issuance of bonds as well as taxes should be used to finance public projects directly productive in na-

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* As a ratio of gross national product.

ture and those that will provide the facilities to stimulate private productive activities.

Monetary Policy

28. The present methods of selective credit control should be re-examined to the end that these are coordinated with the objectives of the economic and social development program.

29. The legal reserve requirements for all types of deposits should be adjusted upwards in order to minimize the inflationary potential of the banking system.

30. In order to reduce the adverse impact of an expanding money supply on the international reserve, the program recommends that the minimum ratio of the former to the latter should be fixed temporarily at 20 per cent. With this ratio and under the present level of money supply, the international reserve should not be less than $160 million.

31. In general, an integration and coordination of fiscal and monetary policies should operate in such a manner as to assure an ever rising level of production, income and employment while maintaining a relative external and internal monetary stability.

32. As an indicator of price stability, the consumer's price index should be re-examined both as to coverage and applicability to make it a more realistic gauge of price behaviour and therefore a more reliable guide to monetary and fiscal policy.

Foreign Exchange Policies and Measures

33. In order to increase the international exchange of goods the Program provides for the adoption of a multiple reserve system with respect to strong foreign currencies which will mean in effect the conclusion of bilateral trade agreements with appropriate foreign governments for the free exchange of the peso and the foreign currencies concerned.

34. To relieve the pressure that the investment program will have on the country's foreign exchange resources the Program recommends the adoption of a foreign investment policy that will encourage joint Filipino-foreign ventures. For the same reason, the Program recommends the policy of giving priority in the establishment of industries encouraged under the Program to applicants that can procure capital goods and raw materials on a deferred payment

basis associated with the policy that the resulting foreign exchange savings should be fully applied to settle the deferred credits. This latter policy should be applied to settle foreign loans and to repatriate foreign capital in the case of joint ventures.

35. The Program provides for any or a combination of these alternative policies designed to reduce the demand for and increase the supply of foreign exchange and therefore increase the resources available for the importation of the capital goods requirements of the program. These are: (a) an import privilege tax of 30 per cent coupled with an export incentives scheme which would allow the export producers a profit differential of from 10 to 20 per cent of the world market prices; (b) a dollar retention scheme providing that export producers be issued foreign exchange certificates corresponding to 15 to 20 per cent of the foreign exchange earnings from their exports to the United States and 20 to 25 per cent if the exports go to Europe; (c) multiple exchange rates providing for three different rates of exchange including the present 2 to 1, 2.5 to 1 for certain types of exports and imports and a free market rate for specific purposes.

36. The No-Dollar Import Law should be repealed as an incentive to producer-exporters with the adoption of any of the three incentive schemes for the export industries mentioned above.

37. There should be adopted a system of priorities governing the grant of foreign exchange which shall give preference to the strategic industries mentioned in the Program-industries using to a maximum degree domestically produced raw materials; industries with high unused capacity; industries which are relatively labor intensive, subject to certain limitations; industries with a relatively short gestation period; industries that produce essential commodities, and other considerations.

38. The import and export control functions now lodged in the Central Bank should be transferred to a National Authority on Trade and Industry which shall implement the economic policies of the government relating to the promotion, development and protection of private industry and trade.

Agricultural Policies and Measures

39. To attain immediately the goal of self-sufficiency in rice and corn the amount of ₱25 million be appropriated yearly for three years to finance the rice and corn production program to be started in FY 1959. The policy of selling to farmers government purchased

fertilizer at half the cost shall be continued to popularize the practice of fertilization.

40. The Program also recommends the complete banning of rice and corn importation and the adoption of price support program for rice and corn to provide incentives to rice and corn farmers. A floor price of ₱9.00 per cavan of palay and ₱7.50 per cavan of corn shall be adopted under the Program. To enable the NARIC to make substantial purchases, the amount of ₱20 million shall be appropriated to serve as a Guarantee Fund to guarantee loans of the NARIC from financial institutions.

41. The agro-industrial integration of the cotton textile industry calls for the immediate expansion of the cotton growing industry. To provide the necessary incentive a cash subsidy of ₱0.10 per pound of cotton sold is provided under the Program.

42. Rubber growing to meet fully the raw rubber requirements of the local rubber industry is encouraged by the recommendation to eliminate through an amendment of the National Internal Revenue Code the 7 per cent tax on the gross sale of locally produced raw rubber.

43. To increase meat production, the animal population shall be both increased and improved in quality. To accomplish the latter the Program recommends the appropriation of ₱2 million yearly for 3 years for the importation of superior breeds for breeding purposes. Seventy per cent of the animals shall be propagated at the government stock farms and the rest will be sold to livestock raisers. Artificial insemination shall be carried out more extensively to improve the cattle, carabao and the hog population.

44. Fish production shall be stepped up by expanding production in fishponds, fresh water bodies and in the deep seas. To expedite the settlement of conflicting fishpond claims, the Secretary of Agriculture and Natural Resources should create a body with quasi-judicial power to settle claims on the spot. The amount of ₱900,000 should be appropriated for three years to establish fish hatcheries and nursery ponds in rivers and in lakes in various parts of the country. Deep-sea fishing shall be developed with the acquisition of fishing boats, nets and gear valued at ₱4.7 million.

45. Conservation is the central objective of the forestry program. This is to be achieved through a sustained and systematic information campaign, protection of the forests from kaingin-making, squatting and undue destruction; through reforestation, and sus-

tained yield management practices by means of selective logging.

46. The NARRA should accelerate land settlement of properly selected areas by qualified farmers through the establishment of an agricultural colony every year for three years with the assistance limited to the provision of farm-to-market roads, schools, health centers and community buildings and with priority given to the selection of settlers to graduates of agricultural schools and colleges. Unlike the present practice, NARRA should not give any subsistence to settlers.

47. To expand rural credit the amount of ₱20 million shall be appropriated yearly for 3 years for the purpose of guaranteeing ACCFA's borrowings from financial institutions.

Industrial Policies and Measures

48. The immediate implementation of basic and highly essential projects should be supported by the Central Bank's allocation of the necessary foreign exchange resources and peso credit by the Development Bank of the Philippines. These projects include steel, spare parts, simple metal manufacture, basic chemicals, cotton and ramie textile, pulp and paper, fertilizer, brick carving, copper and iron mining, and such other industries as may be determined from time to time by the National Economic Council.

49. The allocation of foreign exchange should give next priority to essential industries which with their present allocation could not procure enough raw materials to permit operation to the extent of a least 75 per cent of the rated capacity. Dollar allocation for the other industries may be maintained at present levels which may be reduced, if necessary.

50. The allocation of foreign exchange and credit for other industries not specifically recommended by the NEC shall be made in accordance with the industrial priorities formula.

51. Irrespective of whether or not the raw material requirements of an industry now dependent on imported raw materials can be produced in the future, all projects should be disallowed foreign exchange allocation if the dollar remittance for raw materials and profits exceeds the cost of the corresponding finished articles.

52. Foreign investments in manufacturing and mining should be encouraged on a joint venture basis where there are no Filipino investors who possess or can import the technological know-how for

the industries that are considered desirable and are being fostered.

53. Both as a means of increasing the national production and relieving unemployment and underemployment, promising cottage industries must be developed through a program of training, production of standardized and improved quality products, and improvement of marketing methods including financial assistance for both production and marketing.

Foreign trade and investment policies and measures.

54. Continuing efforts should be exerted to expand the volume and value of Philippine exports and to diversify the direction of international trade compatible with its stability and the objective of getting the most advantageous terms.

The organization and staffing of our foreign service engaged in trade promotion and protection should be improved by a reformulation of the trade promotion program, the creation of an Inter-Departmental Committee on Foreign Trade Promotion, appointment of best qualified commercial attaches and an inservice training for those already in the job.

55. Any governmental policy in foreign trade that is adopted in order to take advantage of regional economic arrangements such as the European payments claim or economic development in other parts of the world, or in order to offset the possible harmful effects of these developments on our trade should not sacrifice the interest of trade stability for temporary or short-lived advantages that may be gained from such action.

56. Foreign investments should be attracted but foreign loans should be preferred to minimize the drain on the foreign exchange resources. In the case of direct investments these should be limited to dollar-earning industries that make use of at least 75 per cent domestically produced raw materials with preference given to such applicant firms which will bring in machinery subject to capital repatriation as soon as the firms shall have earned foreign exchange through the exportation of their products.

57. Export industries as may more or less be adversely affected by the Laurel-Langley agreement should be extended such assistance as will enable these industries to maintain at least the level of their foreign exchange earnings for the country. The assistance shall be in the form already discussed under the foreign exchange policy

section of this Summary. Additional assistance shall consist of the preferential grant of foreign exchange for the importation of essential productive equipment for use by these industries.

Domestic Trade Development

58. To the extent permitted by their charters, the various corporations organized to assist the development of various agricultural industries should undertake immediately to improve the marketing of agricultural products, to accelerate the distribution and assure the best possible prices for farm products without resulting in high prices for the consumers or in unduly raising prices of exports. The assistance will be in the form of cooperative marketing supported by credit.

59. The commodity import and distribution activities of NAMARCO should be maintained and, if necessary expanded but steps should be gradually taken to transfer importation and wholesale distribution to cooperatives composed of legitimate Filipino businessmen who will in turn supply legitimate Filipino retailers or FACOMAS or both.

Tourism

60. To promote tourism, historical spots and points of scenic beauty particularly Tagaytay City and areas along Taal Lake must be developed. Similarly, a portion of the Walled City must be conserved for its historical value, the Death March trail marked out, and other points of interest developed. The sum of ₱3 million recommended for appropriation for the development of tourist spots, include ₱1 million for the development of Tagaytay City and adjacent areas. The balance will be spent for other projects to be determined by a Tourist Resort Development Committee to be appointed by the President.

Public overhead project development policies and measures

61. *Overseas shipping.* Cost considerations should not deter the gradual and steady building up of our overseas shipping industry by Filipino shipping operators in order to reduce to the minimum foreign exchange payments for the transportation of our exports and imports. In this connection appropriate amendments should be made to the Philippine Overseas Shipping Act of 1955 so that shipping loans should be increased from 75 to 90 per cent of the cost of the vessel. Furthermore, the National Shipyard and Steel Corporation

should expand its training program for shipbuilding, engineering, and trade skill development.

62. *Power and transportation development.* Power and transportation development must keep pace with the requirements of the industrialization program. Power development because of its cost must first be geared to the needs of industry ~~and~~ later, to an increasing degree, for domestic uses. The importation of luxurious cars should be discouraged through the imposition of higher taxes. Available foreign exchange should be used for critical vehicle spare parts and the replacement of unserviceable trucks and buses with diesel power units.

63. *Residential construction.* Construction should be moderately reduced because of its inflationary effect. The building of luxurious mansions shall be discouraged. Industrial and commercial buildings shall be constructed with utmost economy because of their inflationary effect and their drain on the foreign exchange resources. GSIS loans for residential construction should be limited to a maximum of ₱10,000 per borrower.

Social development policies and measures

64. *Education.* Among other points, the Program recommends the provision of facilities for 350,000 children of school age during the 3-year period of the Program; the training of 500 science teachers; the establishment of 6 agricultural schools; improvement of trade school facilities; establishment of a graduate program in the College of Engineering, University of the Philippines; and the encouragement of endowments in favor of university education to improve facilities for research and scientific investigations.

65. *Health.* The Program recommends the expansion and improvement of facilities for basic research in medicine and to intensify the production of sera and vaccines; the assignment of more nurses and midwives to the Rural Health Units; and the expansion of potable and safe water supply facilities for the rural areas.

66. *Manpower development.* To develop industrial and manage-

ment skills to meet the demands of the Program, it is recommended that vocational industrial training in specific industries be initiated and the IDC-Management Training Program to upgrade top supervisors in industry be maintained.

67. *Community development.* To stimulate increasing participation of local citizens in community development, the Program recommends the maintenance of the present community development program under the Presidential Assistance on Community Development by providing for continuing assistance particularly in materials and equipment needed for community development projects and the acceleration of the research program on the subject and the evaluation of the present program as a basis for future approach in local community planning.

68. *Public Administration.* The important recommendations in this field include the safeguarding of the independence of the Bureaus of Civil Service, Customs and Internal Revenue from political interference by fixing through legislation the tenure of office of their heads; prohibition of lobbying by pressure groups and the prohibition of legislators and responsible executive officials from making any representations for the grant of any priviliges in favor of private parties; more strict enforcement of laws against the giving and acceptance of gifts as a consideration for official favors; and the integration of all the legal measures designed to prevent graft and corruption and the organization of a machinery which will curtail all forms of dishonesty on the part of public officials and employees and expedite action on all cases of irregularity.

Implementation of Program

69. To assist the President in the coordination and supervision of the over-all economic program and assure that the respective roles of the various agencies are adequately carried out and problems are readily recognized and remedied, the Chairman of the National Economic Council must be designated as an Executive Officer for Economic Development Coordination, pending the approval of an overall implementing agency for the Program.

70. In order that the public and the entire government engaged

in implementing the national economic and social development program get a definite idea of the direction of the over-all development efforts and the general conditions under which such efforts are to be made by the people as reflected by government policies related to the Program, the administration should adopt this Program in principle immediately.

Chapter 2

NATURE OF THE PROGRAM

A. Program in Essence and Its Objectives

1. This three-year program of economic and social development represents a pattern of action in answer to the challenge of raising the standards of living for the masses of the Filipino people. It is part of a long-range program to improve real income and insure for our people a life that is both materially and spiritually satisfying.

2. The process of bringing about economic progress under our conditions is essentially one of accelerating capital formation, improving the knowledge and skills of the people as productive agents and utilizing more technology. The task will involve the elimination of the imperfections of the market, which have served as one of the obstacles to optimum resources allocation and will call for necessary improvements in economic organizations designed to overcome shortage in capital, skills and technology; all these economic changes are sought to be made without disregarding but not necessarily accepting the existing political, social, cultural, and religious values and motivations.

The development process will be effected within the framework of existing culture patterns. Desirable changes in political and social institutions will be sought through education, demonstration and legislation when such are inimical to the requirements of a rapid economic development. Under the Program, however, care will be taken that public policy and action do not upset drastically the existing non-economic value patterns lest the social gains in economic terms will be negated by the costs in non-economic terms.

3. More concretely, the program outlines the efforts at development to be undertaken including their magnitude and objectives, the order of benefits that will result therefrom, the means by which the resources may be mobilized, the methods and techniques by which each project is to be implemented. It also provides for the policies designed to influence the magnitude and direction of resources utilization and to bring about the general conditions favorable to development.

B. Accelerating Capital Formation

4. *Goals for increasing income and employment.* A people's level of living is best indicated by the income per capita. For the

Philippines this has been estimated in 1957 to be ₱375. Specifically one objective of the Program is to maintain the annual growth in real income by twc to three per cent such that the level shall attain approximately ₱417 by 1962.

5. The Program also aims at reducing unemployment and underemployment. It is estimated that in 1957 a total of 668,000* or about 7.65 per cent of the labor force of 8.73* million was unemployed; and that 1.6 million workers or 18 per cent of the labor force was unemployed (668,000) and visibly underemployed (976,000)*.

By comparison with other underdeveloped countries, the extent of unemployment in the Philippines is not high; the real problem lies in the degree of underemployment and disguised unemployment. Idle manpower which does not only represent a needless waste in human resources but also affects social stability will be minimized under the Program.

6. The problems of low income and of unemployment in underdeveloped countries arise generally from inadequate investment or low capital formation. For the Philippines, the average yearly gross investment from 1950 to 1957 is estimated to be 9.8 per cent of the gross national product. This has yielded an additional output of 5 to 6 per cent which is more than what can take care of the increase in population estimated at 2.9 per cent annually.

The levels of investment in the Philippines as compared with those of other Asian countries that are also pursuing a deliberate development program are as follows: Japan, 27.4 per cent; India, 9.7 per cent; Burma, 17.6 per cent; and the Philippines, as indicated above, 9.8 per cent.** It should perhaps be desirable that in order to accelerate the increase in national output and absorb to a greater measure the unemployed and underemployed labor force, investment in relation to total national product be stepped-up immediately.

7. *Investment cannot be unlimited.* However, the rate of investment can only be increased gradually in view of two important considerations. First, a rate in investment much higher than the present level cannot possibly be sustained by our foreign exchange resources. Second, a rate of investment that is radically higher than what we have been able to maintain will call for a sacrifice

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* Average of survey of March, May and October, 1957

** The figure for Japan is the average for the period from 1950 to 1956; for India, 1950 to 1953; and for Burma, 1950 to 1957.

in consumption levels to an extent that may not be politically sustainable. It must be emphasized that although it is desirable that a condition of full employment be attained in the shortest possible period of time, it would be unrealistic to set that as an objective within the next three years without disrupting the economy.

8. *Demand of growth above monetary stability.* On the other hand, the fear of endangering the external stability of the peso at this time when the international reserve is low, and the fear of further inflation should not cause a decision to retrench in total spending for economic development. Such a step would be disastrous because it will aggravate unemployment and underemployment and will result in a reduction in income per capita. Such a decision will place the requirements of monetary stability above the more paramount objectives of economic growth, and the establishment of social and political equilibrium. Thus, the Program provides for an increase in gross domestic investment associated by a shift in the structure of spending in favor of directly productive dollar-earning and saving projects. Such an investment program is calculated both to raise employment and income and at the same time improve our foreign exchange position.

C. Expansion of Agriculture

9. The increase in over-all investment could be absorbed by agriculture without endangering the country's foreign exchange position. The relative emphasis in agriculture under the Program is in fact a temporary solution to the problem of increasing the magnitude of investment without inflation or without increasing the pressure on the international reserve. This is possible because: (a) the country still imports foodstuffs which can be produced locally, (b) some exports such as copra and abaca can be expanded and additional output can be absorbed abroad, (c) there are available land and labor resources for increasing production, and (d) the gestation period of the agricultural food crops industries is relatively short. As a long-range objective, agricultural development will continue to receive a large share of the resources for development to insure an adequate food supply, meet the raw material requirements of industry, and expand the agricultural export production to increase foreign exchange earnings with which to pay for the increasing capital goods imports required by the development program.

D. Industrialization is Long-Range Goal

10. Based on the national income pattern in 1948, a structural

shift in the development of the economy has taken place in favor of the manufacturing industry. The shift towards industrialization is inevitable because our foreign exchange earnings can no longer sustain the increasing requirements for manufactured goods incident to fast rising standards induced by the demonstration effect of Western ways of living. On a long-run basis industrialization should be the central objective of economic policy not merely because it is advantageous in the short run to diversify production but also because only through industrialization can we insure the strength and stability of the economy.

11. *Balance between dollar-saving and dollar-earning industries.* To insure that the balance of payments position will not continue to be unfavorable and thereby deplete further the country's international reserve, increasing efforts should be exerted to develop the dollar-earning industries such as steel, basic chemicals, fertilizer, pulp and paper, textile, food processing including wheat flour milling. At the same time an intensive program to increase the production of the country's principal exports such as copra, abaca and tobacco should be undertaken. The advantages of export crop expansion are that the necessary investments call for relatively small foreign exchange resources and production methods are already well-known. However, the disadvantage of relying on a few primary exports such as we have is that the proceeds are uncertain and no longer adequate to meet the increasing requirements of capital formation. On the other hand, while dollar-saving industries or the production of certain import substitutes can count on a sure market, the foreign exchange requirements for the corresponding projects are high. Hence, the program provides for a balanced combination of dollar-earning and dollar-saving industries consistent with the requirements of both monetary stability and economic growth.

12. *Limit to dollar-saving manufacturing industries.* It is high time that we completely liberate ourselves from the notion that it is wrong to go into the industrial production of goods which can be imported at a lower price from abroad than we could make them. In the first place, the matter of absolute price advantage may be favorable for us if the over-valuation of the peso is considered. In the second place, even if the price advantage is against us, it would still be socially and economically beneficial to undertake the manufacture of certain goods if it is possible thereby to make use of labor and raw materials that would otherwise remain idle. However, this does not mean that the country, in its effort to save foreign exchange, should attempt to manufacture everything that is imported. For the time being the establishment of dollar-saving industries will

be limited to the manufacture of basic producer goods and essential consumer goods from raw materials which are locally produced or can, with reasonable expectation, be produced and where the domestic market for these manufactured goods is reasonably large.

13. *Producer vs. consumer goods industries.* — In the short run a development program which provides for an unduly high percentage of expenditures for the production of producer goods to the sacrifice of consumer goods can impose difficulties on the average consumer. For instance, although it would perhaps be desirable that electricity, steel, cement, basic chemical production and irrigation were given a large share of the resources available for development, such a step could not be taken without draining away the resources which will be needed to produce essential consumer goods such as textile, food, paper and similar goods and bring about thereby an increase in prices of such consumer goods. It is therefore necessary to influence the pattern of production so that real standards of living are protected while serving the requirements of capital formation.

E. Social Overhead in Relation to Productive Projects

14. The Program equally reflects recognition of the need for balancing social overhead projects such as public works, housing, and social development with the directly productive projects in agriculture, manufacturing and mining. In highly productive countries, social overhead projects are, in appropriate periods, undertaken as anti-deflationary measures. However, in underdeveloped countries like the Philippines where supply arising from domestic production cannot be raised easily to fill the demand that will certainly increase with growth in spending (because productive capacity is low and export proceeds are inadequate) an unduly high proportion of social overhead projects is inflationary. On this principle it is economically prudent to limit public works and unproductive projects. It is for the same reason that real estate investment or housing projects should be regulated.

F. Role of Government

15. In seeking to bring about economic and social progress the program adopts an approach that takes cognizance of the existing economic order. Ours is basically a free enterprise economy and, therefore, the Program provides that the effort to bring about economic development is undertaken primarily by the private sector. The government would limit itself in its share of the physical projects to: (a) some basic projects which the private sector is either

unwilling or unable to undertake, (b) social overhead projects including public works and utilities, (c) education, research and surveys, industrial assistance, extension, and public health and social welfare measures, and (d) all other services related to economic development.

16. Private enterprise will operate relatively free from restraints and controls such as are characteristic of dictatorial and socialistic economies. It must, however, be subject to necessary regulations which will result in the optimum utilization of scarce resources, in an orderly functioning of the economy, in protecting the interest of the majority against those of the few, and in bringing about a sound, basic and lasting economic foundation for the country.

G. Public Policy Affecting Private Sector

17. *Monetary, credit and foreign exchange policy.* — These restraints and restrictions which may be applied on private enterprise arise from the adoption of necessary monetary, credit and foreign exchange, fiscal and other policies. Thus, for instance, a change in the reserve requirements of banking system may serve to limit credit to the businessman; a change in the direction of bank lending in favor of agriculture and manufacturing may affect private investors in real estate; and dollar allocation that is being undertaken to insure the optimum utilization of scarce foreign exchange resources may adversely affect industries considered of less importance to the economy.

18. *Fiscal Policy.* — Similarly, new or increased taxes on business may affect private enterprise although, in appropriate cases, the government approves subsidy programs such as the tax exemption law which in effect, is a financial subsidy for new and necessary industries. Taxation may reduce the incentive to invest, but at the same time its necessity must be recognized for unless the government imposes taxes it cannot possibly finance essential services some of which are directly beneficial to industry.

19. *Foreign private investment policy.* — As a general policy, the government, aware of the role that foreign private investment can play in accelerating the country's economic development, encourages under this Program foreign investments. Some of the conditions under which foreign investment may be pursued in this country particularly those regarding capital repatriation and profits remittance are covered by existing Central Bank regulations. With respect to the fields in which such foreign investments may

be made the Constitution has prescribed the limitations. The restrictions and limitations imposed on foreign investments should be understood in the light of the more paramount objective of protecting the economic interest of the country and of insuring that Philippine nationals enjoy the substantial benefits accruing from economic activities conducted within the country. In this connection, the undue alien control of our economy in various sectors particularly in the import, wholesale, and retail trade and recently in the manufacturing industry, should be viewed with serious concern and care should be taken to avoid strengthening further, through our own decisions, the aliens' stranglehold in these areas of economic activities. From the economic point of view any monopolistic control impairs production and affect the real levels of living of the people; and when this control is exercised by aliens, it is especially dangerous to the national security. Regardless of our desire as a member of the internationaly family of nations to maintain a harmonious relation with foreigners and notwithstanding our policy to achieve a speedy development with the aid of foreign capital, our first concern should be the protection of our legitimate interests. Our public policy should be such that the right of our citizens to enjoy the benefits of the national patrimony be preserved. This should be the guiding principle in foreign private investment.

20. *Reparations policy.* — The main philosophy of the reparations program is to use it as an instrument to help build the economy. In connection with the development of the economic program we have confirmed this policy by prescribing a system of priority in the utilization of the reparations goods. Furthermore, we would like to see to it that any payment made under the reparations program is utilized to the best advantage. These policies will not therefore permit any attempt on the part of a businessman in the exercise of the freedom of enterprise to procure and utilize reparations goods under the program, as will suit his interest.

H. Management Implications

21. The management requirement of a national economic development program is necessarily great and it will be the first task of the government to set up the machinery in terms of organizational agencies, personnel, and system of coordination that would be needed to supervise the implementation of the entire Program. It may be conducive to a more effective management of the Program that a division of responsibilities among various agencies in the national government and a decentralization involving the various levels of government be effected.

The absence of coordination among the various agencies that have to do with the implementation of important economic development projects is too well-known to be ignored. The first concern therefore in improving the public management of the program is to evolve a workable system of coordination among these various agencies. Similarly, the various departments of the government need develop planning offices which will coordinate closely with the technical staff of the National Economic Council in connection with development programs which are being supervised by these departments. As indicated elsewhere in this Program there is need for building up the personnel not only in terms of technical and administrative competence but in attitudes and morality to ensure the success of the Program.

To the extent that is possible, the local government should be brought into the total management picture. The involvement of local leadership will not only result in stimulating the interest of local leaders but will also make use of leadership talents at all levels.

As conceived, the Program represents the sum total of the development efforts not only of the Government and the industrialists and big businessmen but also of the small men in the rural communities; in fact, the effort of every citizen. The base of development shall be widened at grass-roots level with the partictipation of the people in local communities or the barrios, and in this way not only moral support for but also actual effort towards development shall be maximized.

I. Public Participation

22. It must be made plain at the outset that in attaining the objectives of this program the people may have to give up part of the present comforts or even forego temporarily improvements in present levels of living. Saving is a prerequisite to capital formation. This means that the social outlays for consumption have to be reduced in order to increase savings for raising the country's productive capacity. The extent of the savings or the degree of sacrifice to be made is reflected by the difference between the investment in 1960 and 1957. The masses cannot perhaps be relied upon to contribute much in the savings in view of their already low levels of living but the more substantial sections of the society can certainly forego temporarily some of their luxuries in order that resources which would otherwise satisfy the requirements of luxurious living are utilized for increasing the country's productive capacity. The Program, in effect, compels a decision on the part of the people to retrench, perhaps within the next decade or two, on consumption expenditures in return for a more productive and prosperous economic future. This is the essence of austerity.

Chapter 3

FINANCE AND FOREIGN EXCHANGE

A. Approach to the Formulation of the Economic and Social Development Program

The general model around which the economic and social development program is built is the simple aggregative economic growth model.

While this simple model is not the only approach to the formulation of a development program, existing statistical data and technical know-how greatly limit the use of the inter-industry (input-output) model. The use of the employment approach is neither feasible for the same reasons.

In analytical terms, the model considers three determining economic variables, namely: the rate of savings of the country (capital formation or investment); the capital output ratio (amount of capital necessary to generate a peso of output) and the rate of growth of the population. Given therefore the capital output ratio and the rate of population growth, the rate of economic growth possible depends upon the level of savings and investment that the country is able to undertake and absorb.

Thus, in the proposed development program, gross capital formation is estimated at 12.5 per cent on the average for the three-year period; the capital output ratio, gross, is 2.2:1 and net, is 1.8:1 during the program period; and the rate of population increase is a constant 3.4 per cent.

B. Proposed Levels of Gross National Output and Income and Pattern of National Expenditures

The following are the proposed levels of gross national output and income as well as the pattern of national expenditures for the program period:

GROSS NATIONAL PRODUCT, INCOME, INVESTMENT AND GOVERNMENT EXPENDITURES 1/

FY 1960 - 1962

(Million Pesos)

	1957	1959	1960	1961	1962	Total 1960-1962
Gross National Product:	9,708	10,611	11,237	11,900	12,602	35,739
Gross Domestic Investment: ..	865	1,209	1,392	1,462	1,628	4,482
Private	580	859	1,040	1,107	1,268	3,415
Public	285	350	352	355	360	1,067
National Income:	8,731	9,518	10,060	10,633	11,260	31,953
Net Domestic Investment: ...	582	869	1,021	1,058	1,187	3,266
Private	297	519	669	703	827	2,199
Public	285	350	352	355	360	1,067
Consumption Expenditures: ..	8,386	8,850	9,186	9,741	10,183	29,110
Total Gov't Expenditures: ..	1,138	1,216	1,295	1,336	1,391	4,022
Public Investment	285	350	352	355	360	1,067
Current Expenditures ..	853	866	943	981	1,031	2,955
						Average 1960-1962
Gross Domestic Investment as per cent of GNP	8.9	11.3	12.3	12.3	12.9	12.5
Net Domestic Investment as per cent of NI	6.7	9.1	10.0	10.0	10.5	10.1
Total Government Expenditure as per cent of GNP	11.7	11.5	11.5	11.2	11.0	11.2
Public Investment as per cent of Total Gov't. Expenditures	25.0	28.8	27.2	26.5	25.9	26.5
Capital Output Ratio:						
Gross	2.8	2.3	2.2	2.2	2.3	2.2
Net (ICOR)	1.1	1.9	1.9	1.8	1.9	1.8
Real Per Capita Income (Pesos)	375	385	396	406	417	406
Estimated population (in millions)	23.8	24.7	25.4	26.2	27.0	26.2

On the basis of the above anticipated levels of national output and income, and of consumption, savings and investments the rate of growth of per capita real income are as follows:

	1957	1959	1960	1961	1962
Real Per Capita	₱375	₱385	₱396	₱406	₱417

The over-all investment program reflects the broad magnitudes of the financial resources needed for the implementation of the eco-

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1/ At 1949 Prices or constant purchasing power.

nomic and social development program and the important policy issues involved in the mobilization of these resources. Broadly, it is composed of two parts; the first covers the domestic financial requirements and the second part indicates the levels of the foreign exchange components of the program.

OVERALL FINANCIAL REQUIREMENTS OF THE ECONOMIC AND SOCIAL DEVELOPMENT PROGRAM
FY 1960 - 1962
(Million Pesos)

	1960			1961		
Sector	*Total*	*Public*	*Private*	*Total*	*Public*	*Private*
Agriculture 1/	136.3	73.0	63.3	133.5	54.0	79.5
Mining 2/	39.7	7.0	32.7	56.5	8.0	48.5
Manufacturing 3/	258.8	59.6	199.2	277.9	75.8	202.1
Construction 4/	429.3	176.3	253.0	437.3	176.3	261.0
Trans. & Communication	106.3	27.1	79.2	115.8	25.2	90.6
Others including trade and government 5/	189.2	87.6	101.6	175.4	94.1	81.3
TOTAL	1,159.6	430.6	729.0	1,196.4	433.4	763.0

	1962			Total 1960-1962		
Sector	*Total*	*Public*	*Private*	*Total*	*Public*	*Private*
Agriculture 1/	146.6	53.0	93.6	416.4	180.0	236.4
Mining 2/	69.0	8.0	61.0	165.2	23.0	142.2
Manufacturing 3/	308.4	70.0	238.4	845.1	205.4	639.7
Construction 4/	452.5	178.5	274.0	1,319.1	531.1	788.0
Trans. & Communication	119.2	26.2	93.0	341.3	78.5	262.8
Others including trade & government 5/ ..	226.3	99.3	127.0	590.9	281.0	309.9
TOTAL	1,322.0	435.0	887.0	3,678.0	1,299.0	2,379.0

One of, if not the most important and central problems of accelerated economic development is capital. The pace of economic growth that occurs in a country is largely determined by the aggregate amount of savings that the country is able to appropriate from its current income and which it invests in productive activities through new additions to the nation's stock of capital goods. In more developed countries like the United States and Japan, and in a few underdeveloped countries like Ceylon, the rate of capital formation ranges from 10 to 20 per cent while in most underdeveloped countries like Indonesia, India and the Philippines this rate ranges from only 5 to less than 10 per cent.

1/ Includes the following current outlays: ₱11 M for 1960, 1961 and 1962.
2/ Includes the following current outlays: ₱7 M for 1960 and ₱8 M for 1961-62.
3/ Includes the following current outlays: ₱3.2 M for 1960; and ₱4.4 M for 1961; ₱4.8 M for 1962.
4/ Includes ₱60 M each for repairs and alterations.
5/ Includes the following current outlays: ₱57.4 M for 1960; ₱55.0 M for 1961; ₱51.7 M for 1962.

The average rate of growth of gross national output and income of the Philippines during the period 1949-1957 is about 5.9 per cent.[1/] This growth figure reflects the capacity of the country to grow and its ability to save and to utilize these savings for productive activities. The average rate of growth of national income during the same period is 5.8 per cent.

One significant aspect of the rate of growth of the national income during this period is its degree of fluctuations. The rate has varied widely from the highest level of 10.7 per cent in 1953 and the lowest level of about 1.1 per cent in 1951. The levels of growth and investment anticipated in the Program aim at stabilizing these levels at rates conducive to sustained and self-reenforcing development.

One of the major objectives of the economic and social development program is to stimulate movement of the nation's resources to more productive activities by bringing about the desired changes in the structure of production of the economy. The manufacturing and mining sectors will in a moderate way increase their relative contribution to the country's total output and income.

The nature and scope of the structural changes (change in the pattern of production) that will take place are indicated in the following table:

RELATIVE CONTRIBUTION OF THE DIFFERENT SECTORS TO NATIONAL OUTPUT AND INCOME
FY 1960 - 1962
(In Percentages)

Economic Sector	1957	1960	1961	1962
Agriculture	37.8	39.0	39.0	39.0
Manufacturing	14.0	15.0	15.5	16.0
Mining	1.9	2.0	2.1	2.2
Construction	3.5	3.3	3.2	3.2
Transportation & Communication	3.5	3.7	3.8	3.9
All others including trade and government	39.3	37.0	36.4	35.7
	100.0	100.0	100.0	100.0

The structural change anticipated during the program period is very gradual and will not therefore unduly strain any sector of the economy. Manufacturing shall increase its contribution to the nation's total output and income by .5 per cent during each year or about 1.5 per cent over the period. Mining will also contribute more, from 2.0 per cent in 1960 to 2.1 per cent in 1961 and 2.2 per cent in 1962.

Agriculture will increase its contribution from its 1957 level to 39.0 per cent in 1960, and maintain that rate through 1961 and

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[1/] In terms of 1949 purchasing power.

1962. The objective of increased sufficiency in food crops and increased production of technical crops for industrial processing account for the desired increase in the contribution of the agricultural sector.

Transportation and communication will increase its share of national income very moderately, from 3.7 per cent in 1960 to 3.9 per cent in 1962. Construction will decrease but very moderately from 3.3 per cent in 1960 to 3.2 per cent in 1962. Investments in residential construction of the luxurious and speculative types will be discouraged so as to make the resources which are normally utilized by these activities available for directly productive enterprises. The other sectors of the economy like trade and services will decrease moderately their contribution to national income as resources from these sectors are redirected to the more productive and desirable areas of economic activity such as manufacturing, mining, agriculture, transportation and communication.

Higher but sustainable levels of real output, employment and income is the basic objective of the investment program. The levels of aggregate gross investment envisioned ranges from 12.3 per cent of total national output in 1960, the first year of the program period to 12.9 per cent in 1962. Expressed in terms of net domestic investment (gross domestic investment minus depreciation), as a ratio of national income, the rate for 1960 is 10.0 per cent gradually increasing to 10.5 per cent in 1962 or an average of 10.1 per cent for the period. It is believed that these anticipated levels of aggregate net investment are highly sustainable, and would not impose undue difficulties on the part of the population.

The investment program is divided into two categories; public investment corresponding to the government sector and private investment, to the private sector. The public investment portion of the program involves government outlays for economic overhead projects such as irrigation systems, highways, public schools, hospitals, etc. and investments in a few directly productive projects which private enterprise is neither willing nor able to undertake, such as the establishment of the NASSCO steel mills and shipyards and power projects.

The private investment program covers private outlays for the establishment of desirable productive enterprises which the government would encourage private entrepreneurs to undertake during the period, by providing them the environment and incentives that will make such investments economically feasible. It is expected, for instance, that a good portion of private financial resources will be channeled to the integration of the textile industry, the expansion and establishment of pulp and paper plants, the manufacture of cement, glass and ceramics, wheat flour, relatively simple agricultural tools and implements and food canning and processing. These are essentially some of the considered more strategic areas of industrial development which need to be developed and promoted during the program period.

C. The Public Investment Program

The public investment program involves outlays of ₱352 million, ₱355 million and ₱360 million for each of the years of the period 1960-1962. This implies a very moderate yearly growth of public investment during the period. Total public investment for the period amounts to ₱1067 million, or an average yearly outlay of ₱356 million.

The scheme of financing proposed for the public investment portion of the program shall be along the lines of more sound public finance indicated in the fiscal policy recommendations.

The sources of financing for the three-year period of the program (1960-1962) shall be as follows:

(Million Pesos)

Source	1960		1961		1962		*Total* 1960-1962	
1. Gov't. Revenues ..	₱168.0		₱162.0		₱147.0		₱477.0	
2. Public borrowing:								
GSIS, SSS, Private	60.0	70.0	65.0	80.0	70.0	90.0	195.0	240.0
Individuals, etc. ...	10.0		15.0		20.0		45.0	
3. Reparations		30.0		34.0		38.0		102.0
4. Foreign Aids & Grants		52.0		43.0		37.0		132.0
5. Others		32.0		36.0		48.0		116.0
Total		₱352.0		₱355.0		₱360.0		₱1,067.0

The bulk of the resources, about 48 per cent, required for the financing of the public investment for the first year of the program, (1960) shall come from existing government income and from additional revenues that will be raised with the adoption of the fiscal measures recommended. About ₱168 million is expected from these sources. Amendments to the pertinent provisions of the National Internal Revenue Code would amount to about ₱100 million. The additional revenue that will be raised by the imposition of the export levy on certain types of exports is estimated at ₱5 million.

The philosophy is that public outlays for additional current operating expenditures and to some extent for the public investment program should normally be financed from government revenues. This is necessary if undue inflationary pressures are to be minimized.

The public capital investment program is proposed to be financed to a reasonable extent from public borrowing. Unlike in the past, however, public borrowing shall be limited to tapping the resources of the government financial institutions (GSIS & SSS) through their provident funds and the savings of private individuals and organizations.

A complementary measure is proposed to develop the market for government securities. The development of the market for government securities will greatly assist in mobilizing the savings of the public and the financing of development in a non-inflationary manner. The magnitude of resources sought to be tapped from this source will be in the order of ₱80 million, on the average, during the period.

Reparations, foreign grants and aids and loans will constitute other sources for the financing of the public sector. While it is extremely difficult to estimate the amount of resources that may be forthcoming from foreign aids and grants and loans, about ₱45 million appears realistic in the light of past experiences.

No definite provisions have been made for government deficit financing or the creation of new money by the government. It is however, recognized that a reasonable amount of financing of this type may have to be resorted to if it will help realize the savings which are sought to be tapped for the program. To ensure against its indiscriminate use, a proposed ceiling of from ₱30-50 million as the permissible levels may be undertaken in any year. Moreover, only productive projects shall be financed from this source. This level of deficit financing is believed to be safe in view of the fact that whatever increase may result in the money supply from such financing would merely offset the hoarding that normally occurs, not to mention the increased monetary requirements of a growing economy.

THE PUBLIC FINANCIAL PROGRAM
FY 1960 - 1962
(Million Pesos)

	1960			1961		
Sector	*Total*	*Capital*	*Current*	*Total*	*Capital*	*Current*
Agriculture	73.0	62.0	11.0	54.0	43.0	11.0
Mining	7.0	—	7.0	8.0	—	8.0
Manufacturing	59.6	56.4	3.2	75.8	71.4	4.4
Construction	176.3	176.3	—	176.3	176.3	—
Trans. & Comm.	27.1	27.1	—	25.2	25.2	—
Others including trade & government	87.6	30.2	57.4	94.1	39.1	55.0
TOTALS	430.6	352.0	78.6	433.4	355.0	78.4

Sector	1962 Total	1962 Capital	1962 Current	Total 1960-1962 Total	Total 1960-1962 Capital	Total 1960-1962 Current
Agriculture	53.0	42.0	11.0	180.0	147.0	33.0
Mining	8.0	—	8.0	23.0	—	23.0
Manufacturing	70.0	65.7	4.3	205.4	193.5	11.9
Construction	178.5	178.5	—	531.1	531.1	—
Trans. & Comm.	26.2	26.2	—	78.5	78.5	—
Others including trade & government	99.3	47.6	51.7	281.0	116.9	164.1
TOTALS	435.0	360.0	75.0	1,299.0	1,067.0	232.0

D. Investment for the Private Sector

The total investment program anticipates net private investment of the levels of ₱669 million, ₱703 million and ₱827 million for 1960, 1961 and 1962, respectively, or an average of ₱733 million during the three year period. In view of the private enterprise nature of the country's economy, private net investment represents about 65 per cent in 1960, 66 per cent in 1961 and 69 per cent in 1962 of the total net investment program, both public and private. This means an investment ratio of (private to public) 65:35 66:34 and 69:31 in 1960, 1961 and 1962, respectively. On the basis of gross domestic investment, the ratios of private to total investment are 75 per cent for 1960-1961 and 78 per cent for 1962. The levels of private gross investment proposed in the Program averages a rate of increase of 14 per cent over the program period. This is highly attainable judging from the performance of the economy during the last ten years.

The principal source of savings for the private investment aspect of the Program shall be the ploughed back earnings of private business. The bulk of investment for the private sector is expected to come from this source. Existing industrial, commercial and trade enterprises are expected to react favorably to incentives which the government will provide to stimulate the maximum participation of private enterprise in the development effort by reinvesting their profits for the expansion or the establishment of new productive ventures.

Individual private savings is expected to provide part of the financial requirements of the private sector. The market for private securities will be developed to the fullest extent possible with the assistance of the incentives provided by public economic policies and the initiation of a national savings campaign.

A reasonable portion of the financial resources that will become available to private enterprises will come from the flow of public and private foreign investments into the country. Foreign private investments in the form of joint ventures and loans are expected to contribute to the financing of the needs of domestic private enterprise. The enactment of a foreign investment law defining the policy of the government with respect to foreign investment as proposed elsewhere in this Program is designed to ensure the flow of resources from this source. It is recognized as a matter of public policy that foreign investment is desirable at this stage of the country's development in so far as they are in accord with existing policies.

The following table shows the nature and magnitudes of investments of the private sector:

THE PRIVATE INVESTMENT PROGRAM
FY 1960 - 1962
(*Million Pesos*)

Sector	1960	1961	1962	*Total* 1960-1962
Agriculture	63.3	79.5	93.6	236.4
Mining	32.7	48.5	61.0	142.2
Manufacturing	199.2	202.1	238.4	639.7
Construction	253.0*	261.0*	274.0*	788.0*
Transportation and Communication	79.2	90.6	93.0	262.8
Others including trade & gov't.	101.6	81.3	127.0	309.9
TOTALS	₱729.0	₱763.0	₱887.0	₱2,379.0

The Program lays emphasis on these economic activities which are highly productive and which would, within a reasonable time, alleviate the pressing problem of foreign exchange. They have been selected on the basis of the criteria contained in the industrial program and the foreign exchange policy.

E. The Foreign Exchange Program

The financing of an overall investment Program for development does not only involve domestic or peso resources but also foreign exchange. In view of the precarious position of the country's level of international reserves, special attention is given to the investment pattern envisaged for the development program. Thus, the over-all program has been designed in the light of this serious problem. The outlays for foreign exchange have been scaled down to the lowest levels possible, in consonance with the objectives of the Program.

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* ₱60 million represents repairs and alterations.

The foreign exchange requirements of the economic and social development program amount to $244 million for 1960, $246 million for 1961; and, $287 million for 1962, or an average of $259 million for the Program period.

The following foreign exchange program indicates the magnitudes of the sectoral needs of the public and private investment programs:

PUBLIC SECTOR
(Million Dollars)

	1960	1961	1962	*Total* 1960-1962
Agriculture	6.4	6.9	6.1	19.4
Mining	2.0	2.0	2.0	6.0
Manufacturing	19.5	24.2	26.5	70.2
Construction	18.4	17.5	15.2	51.1
Transportation & Communication	6.3	5.0	5.9	17.2
Others including trade & government	13.5	14.3	16.4	44.2
Total	$ 66.1	$ 69.9	$ 72.2	$208.2

PUBLIC SECTOR
(Million Dollars)

	1960	1961	1962	*Total* 1960-1962
Agriculture	8.2	9.7	12.2	30.1
Mining	9.7	14.4	17.6	41.7
Manufacturing	73.6	70.8	91.3	235.7
Construction	35.9	29.4	31.0	96.3
Transportation & Communication	32.0	37.3	38.9	108.2
Others including trade & government	18.2	14.1	23.9	56.2
Total	$177.6	$175.7	$214.9	$568.2

The industrial development program both public and private would require $306 million for the three year period. Transportation and communication, construction and mining would require $125 million, $147 million and $48 million, respectively. The average ratio of total foreign exchange to the overall net investment program is 47 per cent. Foreign exchange has to be provided for the purchase abroad of capital goods in the forms of machinery and equipment and raw materials, in addition to the country's normal imports of essential consumer goods and machinery replacement and raw materials for existing industrial plants. The schemes proposed in the fiscal, monetary and foreign exchange policy chapter of the program are designed to raise the foreign exchange requirements of the development program and to dampen the demand for imports particularly of the non-essential types.

Estimates of the foreign exchange resources which will become available to the country during 1960-1962 are reflected in the following foreign exchange budget:

PROPOSED FOREIGN EXCHANGE BUDGET
1959-1962
(Million Dollars)

Sources:	1959	1960	1961	1962	*Total* 1960-62
I. Estimates of Foreign Exchange from Regular Sources					
1. Export Receipts 1/	430.0 2/	473.0	495.0	520.0	1,488.0
2. Invisible Receipts	169	170.0	170.0	170.0	510.0
	599.0	643.0	665.0	690.0	1,998.0
Less Disbursements:					
1. Philippine Government Expenditures	.95	1.0	1.0	1.0	3.0
2. Miscellaneous	85.10	86.0	86.0	86.0	258.0
3. Commitments on foreign loan	21.24	20.0	20.0	20.0	60.0
	107.29	107.0	107.0	107.0	321.0
Estimated foreign exchange available from current earnings	491.71	536.0	558.0	583.0	1,677.0
II. Extraordinary Sources:					
1. Reparations	25.0	25.0	25.0	25.0	75.0
III. Total Foreign Exchange Available	516.7	561.0	583.0	608.0	1,752.0
IV Estimates of Minimum Import Requirements to Permit Sustained Development of the Country:					
A. Total Requirements:	666.8	789.7	823.5	856.5	2,469.7
1. Normal foreign exchange requirements for essential consumer and producer goods for the operation of existing plants	484.3	545.7	577.5	569.5	1,692.7
2. Minimum additional foreign exchange requirements to achieve the pattern and pace of development envisioned in the economic and social development program	182.5	244.0	246.0	287.0	777.0

1/ Export receipts for 1960-62 projected at the rates of increase of 10 per cent in 1960 and 5 per cent thereafter.

2/ Export receipts estimated on the basis of 1956 levels.

Sources:	1959	1960	1961	1962	*Total* 1960-62
V. Excess of Import Requirements over Total Receipts ...	(150.1)	(228.7)	(240.5)	(248.5)	(717.7)
VI. Special Compensatory Financing: 1/					
A. External Loans	182.5	225.0	225.0	225.0	675.0
1. Export-Import Bank ..		50.0	50.0	50.0	150.0
2. Development Loan Fund		50.0	50.0	50.0	150.0
3. Others 2/		125.0	125.0	125.0	375.0
VII. Degree of Import Substitution:		35.9	26.5	35.2	97.6
VIII. Net Additions or Deduction from International Reserves:	32.4	32.2	11.0	11.7	54.9
IV. Total International Reserves at the end of the period:	154.3	186.5	197.5	209.2	593.2

The proposed foreign exchange budget reflects the order of magnitudes of foreign exchange resources that would become available to the country for each year of the program period and the foreign exchange requirements of the economy including those necessary for the achievement of the desired rate of economic growth.

Foreign exchange receipts from exports are estimated price-wise and quantity-wise on the basis of the level that obtained in 1956, plus the anticipated increases in exports with the adoption of an exports promotion program. The estimated rates of increase in exports during the three-year period are in the order of 10 per cent for 1960 and 5 per cent for the next two years, 1961-1962. These represent an increase of about 20 per cent over the program period. The other regular sources of foreign exchange earnings such as U.S. government expenditures, private foreign investments and other invisible items are expected to remain at about the same levels for the period. A constant amount of $25 million from reparations constitutes an extraordinary but regular source of foreign exchange.

Disbursements of foreign exchange are estimated on the basis of the policy of allowing existing industrial plants producing highly essential commodities to operate at levels above the 50 per cent present average levels of operations. To achieve this objective, an additional amount of $50 million is provided for in the foreign exchange

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1/ Loans proposed to be secured payable after the third year (1963) at interest rates of from 5 to 6% payable in 10 years.

2/ Including settlement of claims on the devaluation of dollar and the excise tax for coconut oil aggregating $200 million, spread over the 3-year period.

budget after the normal growth of imports due to a growing population that has been taken into consideration. The minimum foreign exchange requirements of the economic and social development program averaging $259 million a year during the three-year period are also adequately provided for in the foreign exchange budget.

The gap between expected foreign exchange resources and foreign exchange requirements during the period of the Program, is sought to be covered by the scheme of compensatory financing proposed in the foreign exchange program. A reasonable amount of long term loans aggregating on the average of about $225 million from the U.S. Export-Import Bank, the Development Loan Fund and other private sources are proposed to fill this gap. The Export-Import Bank will be tapped to the amount of $50 million while the Development Loan Fund is expected to provide about the same amount for each year of the three-year period. Payment of Philippine claims on the U.S. aggregating approximately $200 million and spread over the three-year period is proposed to assist in the financing of the economic development program. It is recommended that the necessary steps be taken toward the early realization of the proceeds of these claims.

The industrial development program as formulated will effect the domestic substitution of commodities which are normally imported. The foreign exchange savings that would result from this substitution are proposed to be used for the payment of loans for machinery and equipment and raw materials secured through short term loans and deferred credits.

The successful prosecution of the economic and social development program requires the smooth flow of financial resources both domestic and foreign to the different areas in the economy where desirable projects are proposed to be undertaken. The proposed integrated fiscal, monetary and foreign exchange policy is aimed at mobilizing both domestic and foreign financial resources and to channelling them to areas which would bring about the desired pace of economic development.

Chapter 4

FISCAL, MONETARY AND FOREIGN EXCHANGE POLICIES

A. The Need for a Coordinated and Integrated Fiscal, Monetary, and Foreign Exchange Policies

The pattern and pace of development envisioned in the economic and social development program could only proceed in an orderly and smooth manner under conditions of fully coordinated and integrated fiscal, monetary, and foreign exchange policies. The many financial problems which arise in the course of economic growth have to be adequately met if they are not to negate whatever progress has been achieved in the other fronts of the economy.

The basic financial problem of economic growth involves both the mobilization of the country's financial resources and the redirection and utilization of these resources to uses that will contribute most to the achievement of the objectives of rising levels of production, employment and income. Part of the resources that becomes available to the country has to be mobilized by the government through its fiscal policy for the financing of the considered irreducible minimum of social services consistent with the requirments of a growing population and a rising level of living. Public outlays are also needed for public services and facilities necessary in stimulating and promoting the growth of private productive activities. As government competes with the private sector of the economy for the available resources, care need be taken so that whatever resources the public sector or the government mobilizes, would not reduce the resources that would otherwise be available to private enterprise for undertaking desirable productive activities.

As the economy expands and becomes more complex, there is an increased need for more money to facilitate the exchange of the increased output of goods and services. The economy therefore has to be provided with the desirable level of money supply to meet these needs. The elements of a monetary policy suited to the needs of a developing economy are effectiveness, flexibility and courageousness with prudence.

The financing of a development program does not only involve domestic, but also foreign exchange financial resources. As a matter of fact, this particular resource poses the most serious problem in financing the economic and social development program. For this reason, the availability of foreign exchange has become an overriding consideration in the formulation of the program, particularly with respect to industrial development.

B. Fiscal Policy

The scope of fiscal policy is limited in countries where incomes are generally low. Higher taxes are difficult to impose especially if they are relatively high, without impairing the people's level of living which is already very low. The same is true with respect to the capacity of the government to borrow from the public for the financing of essential social overhead and development programs.

The situation in the Philippines with regard to the scope of fiscal policy is however, more encouraging. There appears to be some more room for a high level of taxation. During the fiscal year 1957, the level of government revenues as a ratio of the country's gross income was only 7.7 per cent. Compared to the levels in other countries in a similar stage of development, this is rather low. Australia, Burma, Ceylon, Mexico, Ecuador and Brazil have very much higher levels, ranging from 23 per cent for Australia to 10 per cent for Brazil or an average level of approximately 15 per cent.

In consonance with these considerations, the public aspect of the development program will be undertaken by the government through raising its yearly revenue incomes to higher but sustainable levels. The financing of the increases in government current expenditures and in capital outlays shall be made as much as possible through taxation and non-inflationary public borrowing.

The proposed sources of financing the additional current operating expenditures and capital outlays of the government are as follows:

(Million Pesos)

Source	1960	1961	1962	*Total* 1960-1962
Taxation	₱246.6	₱240.4	₱222.0	₱ 709.0
Public borrowing	70.0	80.0	90.0	240.0
Reparations	30.0	34.0	38.0	102.0
Others incl. foreign aids and grants	84.0	79.0	85.0	248.0
Total	₱430.6	₱433.4	₱435.0	₱1,299.0

The bulk of the additional resources that will become available to the government for financing public projects of the purely governmental type is proposed to come from measures on increased taxation. These additional tax revenues will raise the ratio of government revenues to gross national product from 7.7 per cent in 1957 to about

10 per cent or an average increase of about 1.0 per cent during the program period.

To raise government revenue to the above levels, the following are recommended:

1. Amend sections 21, 24, 30, 34, 45 (c), 46 (b) and (d), 47, 51, 53 (a), (b) and (c), 133, 134, 135, 137, 191, 203 of the National Internal Revenue Code.

These amendments will increase total government revenues by about ₱100.0 million. They involve the reversion of pertinent tax rates to old tax rates and new fiscal measures.

2. Impose a special levy or tax of 30 per cent on the value of importation of certain types of imports upon the opening of the letter of credit.

The enactment of this tax measure involves additional tax revenues of approximately ₱200 million.

3. Impose special export taxes of from 5 to 10 per cent of the value of certain types of exports.

The above measure involves additional revenues of about ₱5 million.

4. Increase of gasoline tax by ₱0.02 per liter. This will involve an increase in revenue of about ₱16 million.

5. Repeal of R. A. 901 (Tax Exemption Law of new and necessary industries) and the adoption of the principle of accelerated depreciation.

6. The adoption of an incentive program to promote gold production and requiring the sale of the country's gold output to the Central Bank. This measure is aimed at encouraging the expansion of the gold industry and the increase of the monetary gold base.

A reasonable portion of the additional financial resources that will be required by the yearly public investment for developmental outlays is sought to come from the proceeds of government borrowing from the public through the following:

Source	*(Million Pesos)*			*Total*
	1960 *Amount*	1961 *Amount*	1962 *Amount*	1960-1962 *Amount*
Government Financial Institutions (GSIS, SSS)	₱ 60.0	₱ 65.0	₱ 70.0	₱195.0
Private Financial Institutions and Private Individuals	10.0	15.0	20.0	45.0
Others	32.0	36.0	48.0	116.0
TOTAL	₱102.0	₱116.0	₱138.0	₱356.0

To enable the government to mobilize the desired magnitude of resources from the above sources the following measures are recommended:

1. The adoption of a policy requiring the public financial institutions such as the Government Service Insurance System and the Social Security System, to utilize their investible funds to help support the development of the government securities market. Due consideration shall be given the obligations of these public institutions to their members and the accepted standards of solvency and liquidity.

2. The structure of government securities as to maturities, interest rates, redemption, and denomination should be tailored to the needs of the general public. Specially, these features of government securities should provide greater incentives to the increased sale to the general public.

3. The re-examination of the Insurance Law particularly with respect to the provision affecting investment portfolios of private financial institutions. Consistent with accepted standards of portfolio diversification, a reasonable portion of the total investment of these institutions should be in the form of government securities.

An analysis of the pattern of investments of government and private financial institutions indicates that the bulk of the resources of these institutions is utilized for consumption and real estate loans. In 1957 for instance about 65 per cent of their loans and investment operations was devoted to these types of activities. A redirection of the financial resources of these institutions to more productive areas is highly desirable.

The country's securities market failed to expand considerably during the last eight years inspite of the efforts of government agencies concerned with the sales promotion of these securities. In 1957, only about 3 per cent of total outstanding government securities was held by private individuals and organizations. This could be attributed to some measure to the structure of government securities. The dis-incentives of longer maturities and the withdrawal of Central Bank support, particularly insofar as private individuals are concerned could have more than offset the incentives from the recent raising of the interest of government securities from 4 to 6 per cent.

Presently quite a number of private financial institutions in the Philippines are the largest potential sources of government borrowing. While the existing laws require these institutions to invest a portion of their resources in securities, it is not clear whether the intention is for them to purchase government or private securities. To the extent that the resources of these organizations are utilized for consumption and other less desirable activities, a policy requiring them to hold government securities would certainly serve to channel available savings to more directly productive enterprises.

The use of proceeds from government borrowing should be confined to public projects that are directly productive in nature and to those that will provide the facilities (external economies) which will directly stimulate private productive activities.

In line with these considerations the following criteria are recommended to form the bases of priority of projects that will be undertaken from the proceeds of public borrowing:

1. The contribution of the project towards increasing the nation's production of goods and services.

Projects which will make a direct contribution to output, at the earliest possible time, should normally be preferred over projects that will only indirectly contribute to increased production and which takes relatively longer periods to mature.

2. The foreign exchange requirement of the project.

Projects that have relatively much smaller requirements for foreign exchange and will eventually assist foreign exchange saving and/or earning activities should be given preference over those that are in less advantageous position. This will not include the NASSCO steel mill and similar public enterprises.

3. The contribution of the project towards providing additional employment opportunities.

Due consideration should be given those projects that will help alleviate the unemployment problem insofar as those projects do not adversely affect the objectives of increased production and the desired pattern of industrial development.

4. The nature of the project, as to whether or not it is self-liquidating.

Projects that will earn income not requiring continuing outlays for repairs and maintenance and could provide for amortization interest payments should be given preferential consideration.

The adoption of the above policies will not only determine the magnitudes but also the pattern of public outlays that will give full support to the national program of economies and social development.

In order to maximize the use of, and the benefits from, the resources which become available to the government through tax revenues, an adjustment of the structure of government operating expenditures is also recommended.

In this connection, it is proposed that the level of national defense expenditures be gradually decreased at the rate that will stabilize the level of these expenditures to about ₱150 million a year. This will release a portion of the financial resources of government to education, health and other similarly essential public activities. The more modern features of national defense points to the direction of a minimum of manpower and a maximum of equipment and a high degree of mobility.

To enable the government to know its financial position particularly on a cash basis, it is recommended that the accounting system and the manner of budget presentation be improved. The adoption of a cash budget is recommended.

C. Monetary and Credit Policy

The task of monetary and credit policy in a growing economy is to provide the economy with the desired volume of money and credit to be channeled to the desired types of economic activities. In an underdeveloped country aspiring for more rapid growth, like the Philippines, the demand for money is bound to increase for several reasons. The extension of the use of money into the non-monetary sectors of the economy, which occurs as development takes place, invariably requires more money. The growth of population likewise imposes new demand for money. Moreover, a developing economy results in more diversified needs for money as capital formation accelerates.

If economic growth, therefore, is to be stimulated one of the primary concerns of the monetary authority should be to provide the economy with that volume of money and credit that such growth invariably requires without impairing relative monetary stability. Indeed, too large or too small a money supply is not conducive to development.

It must however be recognized that monetary policy by itself cannot do efficiently the whole job of regulating the volume of money and credit. It must, as should fiscal policy, be coordinated with each other as well as with the foreign exchange policy.

Expansion of bank credit should be within limits that would promote growth in the private sector under conditions of relatively stable prices. A rise in prices normally follows economic growth. The checking of unreasonable rise in prices is also a task of the monetary authority. The monetary authority should see to it that the expansion of money and credit is within the limits of the considered tolerable price rise.

Another function of the monetary authority is the redirection of the uses made of bank credit. By means of its selective credit control powers, it could direct bank resources to areas of productive activities. The use of bank credit for speculative and consumption purposes should be curtailed to the lowest levels possible. Bank credit for real estate, commercial and other non-essential activities should likewise be cut down. Monetary policy should channel bank credit largely to industrial and agricultural production.

To achieve the above objectives the following measures are recommended:

1. Reconciliation and coordination of monetary and fiscal policy through the repeal of Executive Order No. 236 creating the Fiscal Policy Council. These functions are proposed to be vested in an appropriate government agency which is in the best position to effectively undertake these functions.

2. Re-examination of the present methods of selective credit control in order to coordinate and integrate them with the objectives of the economic and social development program.

3. Upward adjustment of the legal reserve requirements for all types of deposits to minimize the inflationary potential of the banking system.

4. Amend Sections 69, and 70 of the General Banking Act in order that all commercial banks regardless of ownership will be given equal privileges under the provisions of this law.

5. Re-examination of the consumer price index as to its coverage and applicability to make it a more realistic indicator of the behavior of the value of money and a more accurate guide to monetary policy. The importance of this index to monetary policy dictates that it should be truly reflective of price conditions in the whole country.

6. Strengthen the commercial and saving banks system through establishment of a National Deposit Insurance System.

7. Adoption and maintenance of a fixed ratio of international reserves to money supply. The ratio recommended is 20 per cent.

8. Monetary and credit policy should give equal emphasis on all its three statutory objectives, that of promoting a rising level of output, employment, and income, the preservation of the international value of the currency and monetary stability.

D. Foreign Exchange Policy

The nature of the development anticipated during the three years of the Program period will not impose further strains on the foreign exchange resources of the country. The investment structure of the program is such that it makes for the optimum utilization of foreign exchange through the domestic substitution of imported goods at different stages of processing.

The foreign exchange problem, in view of the present precarious level of international reserves, is given special attention in the formulation of the Program. In fact, the availability or non-availability of foreign exchange could spell the difference between success or failure of the development program itself.

The development program will require an average yearly outlay of $259 million during the program period. Capital goods, over and above the country's normal yearly imports, have to be purchased to meet the requirements of the program for these types of goods. Foreign exchange for the importation of raw materials for those desirable industries which would be established during the program period has to be provided, though these requirements have been kept to the minimum. This is not to mention those imports which have to be made to provide for the essential needs of a growing population.

To insure that the foreign exchange requirements of the Program would be met, the following measures are recommended:

1. The adoption of a foreign investment policy designed to promote and encourage joint Filipino-foreign ventures with ratios of participation in accord with existing policy which is presently on a 60-40 basis.

2. The adoption of a multiple reserve system with respect to the Japanese yen, the German mark, the Swiss franc, the pound sterling and other strong foreign currencies.

3. The adoption of a policy of allowing desirable productive enterprises to negotiate with suppliers of capital goods and raw materials on a deferred payment basis. The import substitution of the products produced by these firms and the resulting foreign exchange savings would be utilized for the settlement of these deferred credits. This principle should also be applied to projects financed from foreign loan and joints ventures.

4. The adoption of any or a combination of the following schemes and/or alternatives which are all aimed at increasing the country's foreign exchange earnings:

a. An exports promotion program involving a levy on all types of import transactions (with specific exemption) in the form of an import privilege tax and an exports incentive program which shall provide profits differential to the export industries.

Scope: A tax of 30 per cent for all types of import transactions to be paid upon the opening of the letter of credit. Items that enter the imported component of the cost of living such as drugs, basic foodstuffs, etc., shall be exempted from this tax. Proceeds from this tax would approximate ₱200 million (based on average of 1955-1957 imports).

A profit differential incentive to exports producers on the basis of from 10-20 per cent of world market prices of the products involved. The rate will depend upon the level of profits in the particular industry relative to the other export industries and the stage of processing of the commodity. Lower rates shall be applicable to exports of the purely raw form, high rates shall apply to exports in higher processed forms. The basis shall be profits during the last three years.

b. An export promotion program that involves the retention of a portion of foreign exchange earnings of the exports industries.

Scope: Retention of from 15-20 per cent of the foreign exchange earnings of the producer of the product exported to the U.S. market. A retention of from 20-25 per cent shall be applicable to exports to other free world markets.

Foreign exchange certificates with an initial maturity of 90 days and a maximum maturity of 180 days shall be issued to the exporter and producer. These certificates could be sold in the free market but their use shall be limited to the importation by exporter-producers of non-essential consumer and producer goods and the importation of capital goods and raw materials for the expansion and the establishment of desirable productive enterprises.

As an additional fiscal measure an export tax of from 5-10 per cent shall be levied on exportation of logs, lumber and veneer. This constitutes an increase from the present equivalent 1 per cent tax in the form of the inspection fee, on these types of exports and is aimed at the conservation of the country's forest resources.

c. A foreign exchange policy that involves a multiple rate system.

Scope: Different rates shall be fixed regarding the purchase and sale of foreign exchange, depending upon the types of transactions.

Under this scheme, there shall be three foreign exchange rates, for both the sale and purchase of foreign exchange. One rate will be an official rate on the basis of 2 to 1; another rate for certain types of exports and imports transactions shall be at the rate of 2.5 to 1; and, the third rate applicable to certain exports and imports transactions shall be the rate determined in the free market. The rate structure shall be subject to periodic examination and review by the planning agency of the government.

5. The administration and implementation of recommendations 1-4 above are to be vested in a National Authority on Trade and Industry which is proposed for establishment.

The National Authority on Trade and Industry shall relieve the Central Bank of its imports and exports control functions and shall serve as the agency that will implement the economic policies of the government relating to the promotion, development and protection of private industry and trade.

6. Retention of the present controls on the quantities and types of goods that may be imported.

7. Repeal of the No-Dollar Import Law.

8. Adoption of a system of priorities with respect to the allocation of foreign exchange taking into consideration the following:

a.) The foreign exchange requirements of the strategic industries indicated in the Industrial Program shall be given a high priority;

b.) Percentage value of imported raw materials to raw material requirements and total costs;

c.) Stage of processing of the raw material used and of the finished product;

d.) Assistance to the utilization of existing unused capacity of desirable industries;

e.) Capital and labor intensity of the enterprise;

f.) Availability of domestic resources required for the production of the product;

g.) Time required for the project to mature; and,

h.) Nature and essentiality of the commodity involved.

9. Re-examination of the Central Bank dollar remittance formula. The formula should be made more flexible and subjected to periodic examination in the light of the foreign exchange situation.

The foregoing recommendations taken as a whole are deemed necessary in the solution of the basic economic problems of the country. Neither fiscal policy nor monetary policy on their own and by themselves are adequate to bring about the conditions vital to both the achievement of the desired pattern and pace of development and the alleviation of the major economic ills that have plagued the country during the last decade or so. Fiscal and monetary policies have to be fully coordinated and integrated with respect to each other and also with respect to foreign exchange policy.

The fiscal policy recommended for formulation is aimed at placing the government on a more sound financial position without unduly imposing difficulties on either the part of the people or private enterprise. It is believed that under those conditions sound public finance is not inconsistent with a program of accelerated social and economic development. It cannot be denied that not a few of the economic problems that presently face the country could have been mitigated if not altogether avoided with just a little more coordination among monetary, fiscal and foreign exchange policies.

The accent on monetary policy requires more courage and prudence in its formulation and implementation. Monetary policy alone is not adequate to solve all the ills of the economy particularly if the only consideration of such policy is the short-run objective of monetary stability. The recommendations for monetary policy are so designed to fully coordinate and integrate this policy with fiscal and foreign exchange policy and to readjust its focus not only on the short-run objective of stability but also on the longer run objective of increasing the real level of output, employment and income. The emphasis is on relative and not absolute price stability.

The foreign exchange policy recommendations are based on the following major national considerations:

1. That the welfare of the consumer is not adversely affected. The foreign exchange policy proposed ensures the availability of essential consumer goods. The necessary foreign exchange will be provided for their importation;

2. The reasonable incentives are given the important foreign exchange earning sectors of the economy — the producers of the country's exports products. The incentives program is designed to operate in two directions, namely: stimulate the increased production of export products and enable these export industries to diversify and undertake other desirable productive enterprises;

3. That more knowledge about the behavior of the international value of the peso could be made available with the operation of the foreign exchange free market. A more careful and accurate study and analysis of the movements of the foreign exchange rates will enable the fiscal and monetary authorities to formulate more realistic and effective policies with respect to our foreign exchange problems. This could result in the eventual unification of the exchange rates and the complete decontrol of foreign exchange and all types of imports.

The foreign exchange policy will serve to operate in minimizing the demand for non-essential imports through the cost restrictions imposed by the special levy on these transactions.

Moreover, it assumes the continuation of the present quantitative controls on imports. This is a necessary complement to the proposed foreign exchange policy in order to ensure in the interim, that the uses to which foreign exchange are channeled in accordance with the priorities set forth in the economic and social development program.

Chapter 5

AGRICULTURAL DEVELOPMENT PROGRAM

A. Resume

This is a program aimed at increasing the production particularly of rice and corn and protein foods to assure an adequate food supply, at expanding the output of dollar-saving raw materials of agricultural origin for use by the manufacturing industry, at boosting production of export crops to increase foreign exchange earnings, at the proper utilization and conservation of agricultural resources, and at strengthening the institutional foundation of Philippine agriculture.

The program envisages the production of 7.8 million metric tons of food crops in 1960 and of 8.9 million metric tons in 1962, or raising the sufficiency ratio from 74.0 per cent in 1959 to 78.0 per cent in 1960 and to 84.6 per cent in 1962. Rice and corn output alone is expected to meet the requirements for the food grains as early as 1959. In 1962, animal protein food industries are expected to yield 675,000 tons of animal products and 530,000 tons of fish which will raise self-sufficiency to 40.9 and 73 per cent, respectively. Considering all food items, the sufficiency ratio is hoped to rise from 67.7 per cent in 1959 to 78.3 per cent at the end of the program period.

The production of export crops is estimated to increase from 3.2 million tons in 1959 to 3.6 million in 1962 to support an expanding volume of exports. By that year the country expects to produce about 3 million metric tons of exportable surplus including 1,390,000 of copra, 1,100,000 tons of sugar and 160,000 tons of abaca. Log production is to be maintained at 2 billion board feet a year enough to provide raw materials for the manufacture of lumber and plywood and at the same time meet the export requirements.

To attain the goals envisioned, policies and measures are recommended to be promulgated and implemented. These include the expansion of the rice and corn program supported by the banning of the importation of these cereals, adoption of a floor price for both, and establishment of a guarantee fund to expand NARIC's local operations; the provision of incentives for the production of export commodities and of import substitute; encouragement of livestock production through the importation of breeding stock, disease control, artificial insemination, livestock dispersal, etc.; expansion of fish production by the development of fishponds and deep-sea fishing; conservation of forests through proper utilization and management; expansion of agricultural credit and development of settlement areas.

The public and private sectors of the economy are called upon to work hand in hand and to contribute their share of labor and financial resources towards the attainment of the desired goals. Without this cooperative effort agricultural development cannot proceed at the desired pace. Thus, about ₱179 million of public funds and ₱236 million of private resources will be needed during the program period.

B. The Program

A high level of agricultural production under our conditions is vital to an accelerated program of economic development. An orderly process of economic growth is only possible to the extent that the agricultural sector of the economy lends full support to the whole scheme of development. Food for the growing population has to be provided and the growing processing and manufacturing industries have to be supplied partly or wholly with raw materials of agricultural origin. Consistent with the desired structure of production, increased output of export products has to be pursued to help provide the foreign exchange requirements of the growing economy.

The Current Situation

The Philippine economy today is still basically agricultural. During the last seven years, agriculture accounted for an average contribution to national income of 41.3 per cent. In 1957, however, because of the drought and fall in prices of agricultural commodities, income originating from agriculture was only ₱3,323 million or 37.8 per cent. During the same year $363.5 million worth of agricultural products were exported, constituting about 84.4 per cent of the total foreign exchange earnings from the exports of the country.[1]

As of October, 1957 about 4,997,000 persons or 60.9 per cent of the total labor force were actually employed in agricultural pursuits. About 70 per cent of the population live in the rural areas.[2]

Although agricultural productivity has increased, production has not quite caught up with the increasing requirements of a growing population. For example, in 1957, the 6.5 million metric tons of food crops produced supplied only 70.8 per cent of the needs of the people. The production of meat, milk and eggs was about 0.3 million metric tons or only 20.4 per cent of national requirements. The fish produced amounted to 0.38 million metric tons or a sufficiency of only

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[1] SOURCE OF BASIC DATA: Ninth Annual Report, 1957, Central Bank of the Philippines, Manila.

[2] Philippine Statistical Survey of Households, Series No. 3, October 1958, OSCAS, NEC, Manila.

60.0 per cent.

Thus, the country has to import every year these basic foodstuffs to fill the deficiency. In 1957, $37.5 million worth of cereal and cereal preparations; $8.2 million worth of meat and meat preparations; $31.5 million worth of dairy products, eggs and honey; $13.2 million worth of fish and fish preparations; $5.2 million worth of fruits and vegetables; and $6.2 million worth of coffee, tea, cacao, spices and manufactures thereof; or a total of $101.8 million, were imported.[1]

Opportunities for increasing agricultural production in the country are plentiful in view of the available untapped or unexploited natural resources. As of 1957, for example, out of the 11.4 million hectares already classified as agricultural and only 7.0 million hectares or 61.4 per cent were planted to crops. The rest were still unsettled and idle. On the basis, however, of the potential agricultural land estimated to be 17.2 million hectares, the area planted to crops constitutes only 40.7 per cent.[2]

There are about 3.4 million hectares classified as grasslands. Of this area, about 400,681 hectares are being used as grazing land covered by 2,242 pasture permits and/or leases in force as of June 30, 1957.[2] These, together with coconut lands and other farmsteads (that could serve dual purposes), can easily support a much larger livestock population.

The fishery resources are made up of 900,000 hectares of fresh water, about 500,000 hectares of brackish swampland, and 166,000,000 hectares of marine areas. However, only 400,000 hectares or 44 per cent of fresh water are exploited; only 112,000 hectares or about 22 per cent of the brackish swampland are so far developed into fishponds for fish cultivation purposes; and only the coastal and inshore waters of the marine areas are presently fished, leaving the deep-sea and offshore areas still largely unexploited.[3]

Forestry programs and utilization plans have assumed that there are 16.5 million hectares of forest lands with a stand of 460 billion board feet of timber and that this even grows at a rate of 1.5 per cent a year. Recent estimates, however, indicate that there are only 13.2 million hectares in various categories of forest lands of which only 7.3 million hectares are accessible commercial forests, that the commercial timber stock is only around 300 billion board feet, and that there is no appreciable timber growth at all. It is urgent that the forest resources be amply protected from undue destruction, the use of selective logging be made more general to lead to sustained-yield management, and that the reforestation program under a changed approach be accelerated.

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[1] Statistical Bulletin, June 1958, Central Bank of the Philippines, Manila.

[2] Bureau of Forestry, Manila.

[3] Bureau of Fisheries, Manila.

The Problems

There have been improvements in the adoption of modern agricultural techniques and practices and in the institutions providing assistance to agricultural production. Despite this, however, some major problems still persist.

Crop Production.— Mention may be made of the age-old methods of farming still practiced by our farmers and the use of poor-yielding varieties tending to hold back improvements in farm productivity. These problems are further aggravated by the lack of knowledge on soil management and conservation practices and the proper control of plant pests and diseases.

Although farmers desire to improve their farming methods, low farm incomes impede their acquisition of agricultural equipment, supplies and additional labor. In some cases, the lack of farm-to-market roads and the high cost of transportation pose a bottleneck to the further increase in production. The accumulation of agricultural surpluses in some areas arising from these two obstacles makes the problem of processing and storage more acute.

Cooperative marketing efforts under the ACCFA has resulted in slightly raising the rice farmers' income. Nevertheless, much remains to be done in the way of organized and credit-supported marketing to help the producers of other food crops obtain high prices for their products.

With respect to rural credit, slight improvement have been achieved by congressional enactment of the Rural Banks and ACCFA laws. It is the feeling, however, that these two organizations should be encouraged to extend liberal long-term loans at low interest rates if their purpose of aiding agricultural development is to be achieved.

Livestock production. — In the field of livestock production, the problem of major importance is the shortage of quality breeding stock, particularly beef and dairy cattle to supply the requirements of those desiring to engage in beef cattle ranching and dairy farming. Much needs be done in breeding, feeding and management to hasten the production of sufficient number of superior breeding animals, thus doing away with the need for importing them. The prevention, control and eradication of bacterial, viral, parasitic and dietary diseases which are still prevalent, require much attention. The inadequacy of feeds and their poor distribution, particularly of concentrates, limit poultry and swine production.

The improvement of the dissemination of technical information to the livestock farmers; the clandestine and indiscriminate slaughter of animals; the need for the delimitation of pasture areas and pasture improvement; and, the training of more technical men are also problems that need solution.

The other problems to be faced are: the need for capital and credit assistance; improvement of the marketing of livestock and livestock products; and, inadequacy of research and statistical data on the industry.

Fish production. — In fisheries development, the alarming problem is the declining yield and low productivity of many units comprising the country's fishery resources, particularly of fresh-water and the coastal and immediate offshore areas. This was brought about by overfishing and destructions caused by illegal and indiscriminate fishing with the use of explosives, poisons, and fine-meshed nets. However, deep-sea and offshore areas offer a potential source of fish and other marine products but due to lack of entrepreneurs, deep-sea fishing has remained undeveloped.

The antiquated fishing methods still prevailing in the country are largely responsible for the poor fish catch that fishermen make. This is the principal cause of low income among them, a situation that hinders a fast rate of modernization of fishing practices and techniques, especially when prices of equipment, supplies, high-powered fishing vessels, nets and gears, and appliances are high. The lack of sufficient long-term credit at low interest rates aggravates this problem.

The other problems are lack of adequate information on the country's fishery resources and technical knowledge by which these resources can be developed and effectively conserved; lack of ground installations such as wharves, drydocks and engine repair shops to service fishing vessels; inadequacy of refrigeration facilities; timidity of capital; the inadequate control over the fishery resources by the government; and the lack of personnel trained in the manipulative skills of efficient fishing.

Forestry. — Encroachment on public forests and destruction of valuable timber have become widespread. Laws intended to protect the forests are not rigidly enforced and public disregard of conservation regulations has become very alarming. The segregation and setting aside of forest lands for permanent forests is very slow and there is no assurance that those being established or already established would remain as such.

Logging practices in most areas granted under timber license are still destructive and violative of sustained-yield principles as to preclude the return of logged-over areas to productive timberlands.

The lumber and wood-using industries are far from being stabilized and 40 per cent of the total timber output is still exported in the form of logs. The present reforestation practice is slow, expensive and often ineffective. Public appreciation of the importance of forests to the national welfare is wanting; there is paucity of reliable forestry data; the Bureau of Forestry suffers from inadequate facilities, funds and outmoded procedures and as a result forest administration is ineffective and considerable forest revenues escape collection.

Institutional problems. — There is urgent need to improve the administration and implementation of agricultural policies or programs and effect efficient and accelerated production. In many instances, the lack of concrete, comprehensive and progressive policies on agricultural development are clearly evident. As a result of this, we find inadequacy, duplication and overlapping of service function; inappropriate recruitment, distribution and assignment of personnel; inadequate technical training in agricultural pursuits; ineffective utilization of scarce public funds; lack of extensive studies and statistics on agriculture; and lack of proper planning of agricultural activities on the part of the government and among private investors.

The income of the farmer is low. It is because the farm he cultivates is limited in acreage. He has always adhered to old-fashioned farming practices which by any standard is inefficient. He suffers from inadequacy of credit, poor marketing facilities, absence of farm-to-market roads, etc. There also exists the problem of land tenure practices which up to now appears to have only mildly responded to remedial measures. The creation of the Agricultural Tenancy Commission (RA 1199) which aims at defining and making more equitable the relationship between tenants and landlords, providing tenant-farmers with incentives to production, etc.; the organization of the Court of Agrarian Relations (RA 1267); the Land Tenure Administration (RA 1400); the establishment of farmer cooperatives, rural banks and others geared to the improvement of the farmers' lot and their active participation in the peaceful development of a democratic and progressive rural community have laid down the framework upon which to build the final solution to this age-old problem of tenancy. It is on the expeditious and coordinated implementation of all the measures within this framework that the improvement of land tenure depends. It must be recognized, however, that land tenure reform is a slow process.

Mention may also be made of the need for (1) more responsive credit policies; (2) properly directed, sustained and coordinated agricultural research; (3) an intensive vocational and technical training; (4) effective extension service; and (5) an agricultural taxation policy that will bring in more revenues and at the same time provide incentives to producers.

Objectives and Production Goals

Based on the problems previously indicated, the formulation of the agricultural development program considers the following objectives and goals:

1) To increase production of rice and corn beyond sufficiency level; increase substantially the production of other food crops and to set the pace of an accelerated production of animal protein foods, particularly fish, meat, milk and eggs in order to attain self-sufficiency in the earliest time possible.

2) To maintain and/or increase the production of dollar-earning and dollar-saving agricultural products, particularly copra, sugar, abaca, tobacco, cotton, logs, ramie, rubber and minor fishery and forestry products in order to realize greater proceeds and increase the country's foreign exchange earnings.

3) To initiate and/or strengthen measures that will bring about proper utilization and conservation of the land, fisheries and forestry resources to ensure a sustained yield from them.

4) To strengthen the economic, social and institutional foundations of Philippine agriculture through changes that will improve land tenure conditions, agricultural credit, marketing and cooperatives, research, education and extension, and rural community life.

The annual production levels aimed at in the three-year program are indicated in Table 1.

The attainment of the production goals during the program period would bring the level of sufficiency in food products (plant and animal) from 63.7 per cent in FY 1957 to 78.3 per cent in FY 1962. The annual sufficiency ratios of the different categories of food products are shown in Table 2.

Table 1. PRODUCTION GOALS FOR FY 1959 TO FY 1962
(In thousand metric tons)

Products	1957 1/	1958	1959	1960	1961	1962
Food crops	6,470.1 [a]	6,376.2	7,170.5	7,781.0	8,447.0	8,942.0
Commercial crops .	2,910.8 [a]	3,075.9	3,206.6	3,350.5	3,476.5	3,611.7
Animal products ..	292.1 [a]	398.8	456.7	524.1	600.6	675.5
Fishery products .	377.2 [b]	382.8	410.0	440.0	485.0	530.0
Forestry products 2/						
Logs c/	(1,964.0)	(2,000.0)	(2,000.0)	(2,000.0)	(2,000.0)	(2,000.0)
Lumber c/	(479.0)	(500.0)	(520.0)	(550.0)	(600.0)	(670.0)
TOTAL	10,050.2	10,235.1	11,243.8	12,095.6	13,009.1	13,759.2

SOURCE OF DATA: a/ Agricultural Economics Division;
b/ Bureau of Fisheries, Manila.
c/ Bureau of Forestry, Manila.
1/ Actual. 2/ [illegible] million board feet; not included in total.

Table 2. SUFFICIENCY IN AGRICULTURAL FOOD ITEMS*

Production: In Thousand metric tons
Ratios: In per cent

Category	FY 1957			FY 1958			FY 1959		
	Production	Requirement**	Ratio	Production	Requirement	Ratio	Production	Requirement	Ratio
Food Crops ..	6,470.1	9,142.2	70.8	6,376.2	9,441.9	67.5	7,170.5	9,689.4	74.0
Animal Prod. .	292.1	1,426.5	20.4	393.6	1,468.6	26.8	456.6	1,511.9	30.2
Meat	212.3	772.6	27.4	283.7	795.4	35.6	325.1	818.9	39.6
Milk	7.3	568.8	1.2	31.3	585.6	5.3	36.6	602.8	6.0
Eggs	72.5	85.1	85.1	83.6	87.6	95.3	95.9	90.2	106.2
Fishery Prod. .	377.3	628.9	60.0	382.8	647.5	59.1	410.0	666.6	61.5
All Foods ..	7,139.5	11,197.6	63.7	7,157.8	11,558.0	61.9	8,037.1	11,867.9	67.7

Category	FY 1960			FY 1961			FY 1962		
	Production	Requirement**	Ratio	Production	Requirement	Ratio	Production	Requirement	Ratio
Food Crops ..	7,781.0	9,975.7	78.0	8,447.0	10,269.5	82.3	8,942.0	10,572.6	84.6
Animal Prod. .	524.1	1,556.4	33.6	600.6	1,602.4	37.4	675.5	1,649.7	40.9
Meat	372.5	843.0	44.1	426.9	867.9	49.1	476.5	893.5	54.6
Milk	41.7	620.6	6.7	47.6	638.9	7.4	54.3	657.8	8.2
Eggs	109.9	92.8	118.4	126.1	95.6	131.9	144.7	98.4	148.0
Fishery Prod. .	440.0	686.3	64.5	485.0	706.6	68.6	530.0	725.5	73.0
All Foods ..	8,745.1	12,218.4	71.5	9,532.6	12,578.5	75.7	10,147.5	12,947.8	78.3

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* Imported foods not taken into consideration. Requirements for rice and corn are based on apparent consumption; for other food items, on sound nutritional standards.

** Philippine Food Balance Sheet, 1957, National Economic Council, Manila.

Except for rubber and cotton which are not as yet produced in sufficient quantities for the domestic manufacturing plants, increased surpluses for exports are to be realized for commercial crops during the program period as indicated in Table 3.

Table 3. ESTIMATED EXPORTABLE SURPLUSES AND DEFICIENCIES OF COMMERCIAL CROPS*

(Thousand metric tons)

Items	1957	1958	1959	1960	1961	1962
Exportable Surplus	2,405.3	2,536.6	2,648.0	2,769.0	2,869.0	2,954.5
Copra	1,201.0	1,173.4	1,256.0	1,312.0	1,348.0	1,390.0
Desiccated coconut ...	54.0	56.9	65.0	70.0	75.0	80.0
Sugar	862.0	997.5	1,000.0	1,040.0	1,080.0	1,100.0
Abaca	120.0	115.7	130.5	140.0	150.0	160.0
Tobacco	15.0	11.1	17.0	19.0	20.5	22.0
Ramie	2.2	2.0	3.0	3.0	3.0	4.0
Maguey	2.5	1.7	4.5	6.0	7.5	8.7
Kapok	—	.1	.3	.7	1.3	2.6
Molasses	149.1	178.2	171.7	178.3	183.7	187.2
Deficiencies	19.8	21.6	24.8	32.3	35.7	37.6
Cotton	12.9	14.7	18.1	26.3	30.4	34.0
Rubber	6.9	6.9	6.7	6.0	5.3	3.6

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* Exports of pineapple and other fruits not included.

In addition, there would be increases in the production of lumber, plywood and other wood products for exports.

Financial Requirement

The program calls for additional public expenditure of ₱73.15 million in FY 1960, ₱53.97 million in FY 1961, and ₱52.57 million in FY 1962, or a three-year total of ₱179.69 million, as shown in Table 4.

Table 4. SUMMARY OF ADDITIONAL FINANCIAL REQUIREMENTS FOR THE 3-YEAR AGRICULTURAL DEVELOPMENT PROGRAM, FY 1960-62
(In million pesos)

Sector	*FY* 1960	*FY* 1961	*FY* 1962	*Total*
Crop Production	26.05	27.07	25.77	78.89
Animal Production	2.95	2.65	2.45	8.05
Fish Production	2.75	2.75	2.75	8.25
Forestry	1.40	1.50	1.60	4.50
Institutional	40.00	20.00	20.00	80.00
TOTAL	73.15	53.97	52.57	179.69

The success of the program depends largely on the participation of the private sector which is called upon to channel more of its financial resources, efforts and talents into agricultural endeavors. This sector's level of additional investments has been estimated and presented in Table 5.

Table 5. ILLUSTRATIVE ADDITIONAL PRIVATE INVESTMENT SCHEDULE
(In million pesos)

Sector	*FY* 1960	*FY* 1961	*FY* 1962	3-*Years*
Crop Production	17.23	21.32	24.60	63.15
Animal Production	15.10	21.20	25.00	61.30
Fish Production	19.00	25.00	30.00	74.00
Forestry	12.00	12.00	14.00	38.00
TOTAL	63.33	79.52	93.60	236.45

Altogether, the estimated additional financial requirements of the program amounts to ₱136.48 million in FY 1960, ₱133.49 million in FY 1961 and ₱146.17 million in FY 1962, or a three-year total of ₱416.14 million.

Table 6. ADDITIONAL FINANCIAL REQUIREMENT SHOWING CURRENT OPERATING EXPENDITURE AND CAPITAL OUTLAY (PUBLIC SECTOR) FY 1960-1962

(*In million pesos*)

Sector	FY 1960	FY 1961	FY 1962	Total
Crop Production:	26.05	27.05	25.77	78.89
Current & Operating Expenditures	7.05	7.07	7.07	21.19
Capital Outlay	19.00	20.00	18.70	57.70
Animal Production:	2.95	2.65	2.45	8.05
Current & Operating Expenditures	.45	.45	.25	1.15
Capital Outlay	2.50	2.20	2.20	6.90
Fish Production:	2.75	2.75	2.75	8.25
Current & Operating Expenditures	2.55	2.55	2.55	7.65
Capital Outlay	.20	.20	.20	.60
Forestry:	1.40	1.50	1.60	4.50
Current & Operating Expenditures	1.20	1.25	1.30	3.75
Capital Outlay	.20	.25	.30	.75
Institutional Factors:	40.00	20.00	20.00	80.00
Current & Operating Expenditures	—.—	—.—	—.—	—.—
Capital Outlay	40.00	20.00	20.00	80.00
TOTAL:	73.15	53.97	52.57	179.69
Current & Operating Expenditures	11.25	11.32	11.17	33.74
Capital Outlay	61.90	42.65	41.40	145.95

Table 7. ADDITIONAL FINANCIAL REQUIREMENT FOR AGRICULTURAL PRODUCTION SHOWING PESO AND DOLLAR COMPONENTS FY 1960-1962

(*In millions*)

Sector	FY 1960			FY 1961			FY 1962			Total		
			Total			Total			Total			Total
	₱	$	Pesos	₱	$	Pesos	₱	$	Pesos	₱	$	Pesos
Crop Production ..	15.55	5.25	26.05	15.57	5.75	27.07	15.77	5.00	25.77	46.89	16.00	78.89
Animal Production	.75	1.10	2.95	.45	1.10	2.65	.25	1.10	2.45	1.45	3.30	3.05
Fish Production* .	2.61	.07	2.75	2.61	.07	2.75	2.61	.07	2.75	7.83	.21	8.25
Forestry	1.40	—	1.40	1.50	—	1.50	1.60	—	1.60	4.50	—	4.50
Inst'l Factors** ..	40.00	—	40.00	20.00	—	20.00	20.00	—	20.00	80.00	—	80.00
TOTAL	60.31	6.42	73.15	40.13	6.92	53.97	40.23	6.17	52.57	140.67	19.51	179.69

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* Includes the fisheries guarantee fund of ₱2 million a year.

** NARIC—₱20.0 million guarantee fund; ACCFA—₱20.0 million guarantee fund a year for 3 years.

Table 8. ESTIMATE OF THE PESO-DOLLAR COMPONENT OF THE HOPED-FOR ADDITIONAL INVESTMENT OF THE PRIVATE SECTOR IN AGRICULTURAL PRODUCTION, FY 1960-1962

(*In millions*)

Sector	FY 1960			FY 1961			FY 1962			Total		
			Total			Total			Total			Total
	₱	$	Pesos	₱	$	Pesos	₱	$	Pesos	₱	$	Pesos
Crop Production ..	15.69	.77	17.23	19.48	.92	21.32	22.34	1.13	24.60	57.51	2.82	63.15
Animal Production	14.00	.55	15.10	19.00	1.10	21.20	21.00	2.00	25.00	54.00	3.65	61.30
Fish Production ..	13.50	2.75	19.00	18.00	3.50	25.00	22.00	4.00	30.00	53.50	10.25	74.00
Forestry	3.60	4.20	12.00	3.60	4.20	12.00	5.60	4.20	14.00	11.20	13.40	38.00
TOTAL	46.79	8.27	63.33	60.00	9.72	79.52	69.34	12.13	93.60	176.21	31.12	236.45

Recommendations

The problems of agricultural development are many and varied. The formulation, therefore, of the investment program and the public policies that would be required to support them takes into consideration the limited financial resources which could be channeled into this field. The program stresses only the solving of the more important problems for which the folowing measures are recommended:

Rice and Corn

1.) To attain the production goals for these cereals, ₱25 million a year for three years should be provided for the further implementation of the rice and corn program started in FY 1959. This program is so vital to the economy that it is necessary to create a super national committee composed of high government officials with the responsibility of implementing the program.

2.) Because of the fact that most of our rice and corn lands are not irrigated, research on scientific farming practices including the application of fertilizers and use of high-yielding seeds on this type of land should be undertaken immediately. In this connection, technical assistance from the Rockefeller Foundation and the United Nations for a cereal research program should be requested. The research on corn should also be conducted in Mindanao so that the results obtained would be directly applicable in this region where large scale commercial planting of corn takes place.

Promotional campaign for private farmers to go into the commercial production of selected rice and corn seeds should be expanded. Production of selected seeds of these cereals by private concerns would be more economical and practical.

3.) The coverage of the program can be expanded by allowing the proceeds (50 per cent of cost) from the sale of fertilizers for distribution to additional areas and its successful termination can be enhanced by complementing it with the modernization of rice and corn milling including the procurement under Reparations of rubber-roller hullers worth ₱500,000 in FY 1960, and ₱1,500,000 in FY 1961 for credit sale at cost to group of rice farmers. The rubber-roller huller has the advantage of having a high milling recovery and retaining much of the vitamins and minerals naturally present in rice, hence, eliminating the need for the artificial enrichment.

4.) The program can be further strengthened by completely banning the importation of rice and corn, by encouraging the exportation of fancy rice varieties, by taking steps towards the ultimate Filipinization of the rice and corn trade, and by appropriating ₱20 million to be used as a Guarantee Fund to guarantee loans of the NARIC from financial institutions for local purchase of rice and corn. However, before this guarantee fund could be availed of, the NARIC should first liquidate all its outstanding obligations. In connection with NARIC purchasing activities, a floor price of ₱9.00 per cavan of palay and ₱7.00 per cavan of shelled corn should be established. In places where NARIC has no bodegas, arrangement should be made to accomodate the cereals purchased in FaCoMa bonded bodegas. The bonded warehouse receipts may be used to obtain loans to the extent of 60% of their face value.

Other Food Crops

5.) The service agencies of the government should encourage the development of orchards and truck gardening, the establishment of private seed farms and nurseries and the large-scale planting of cassava, camote, Irish potatoes, peanuts, cashew, pili, coffee, cacao and black pepper. Futher encouragement should be brought about by establishing a potato-onion-garlic-black pepper seed farm in Mountain Province that would require ₱150,000 in FY 1960 and ₱20,000 each of FY 1961 and FY 1962. Gradual banning of imports of fresh, canned and dried fruits and vegetables and coffee would also provide an incentive to agricultural producers.

Commercial and Export Crops

6.) All activities on coconut research including that of "Kadang-Kadang" should be concentrated in the Bureau of Plant Industry which should be provided with ICA and United Nations assistance.[1] The Bureau should program the systematic development of new coconut plantations to replace old and infested areas.

7.) The government should work for the development of new markets for sugar and for the increase of Philippine sugar quota to the United States.

Bulk shipment of sugar for export should be encouraged. This is more economical and would mean savings of dollars.

8.) To serve the abaca industry, the Davao abaca seedling bank should be expanded to three times its present size and provided with addtional appropriation of ₱50,000 a year.

Research on the control of mosaic disease should be continued. The use of modern stripping machine to increase fiber recovery and utilization of waste for pulp paper and paper for cigarette manufacture should be encouraged.

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[1] The term of the present U.N. Technician working on "Kadang-Kadang" should be extended and if this is not possible, another plant virologist should be recruited to take over the work.

9.) While it is recognized that R.A. 1194 has encouraged the production of Virginia leaf tobacco, it is felt that it is now time to limit government purchase to high-quality leaf only. Encouragement should also be given to the production of Sumatra wrapper tobacco.

10.) Cotton production should be encouraged by the enactment of a law giving a cash subsidy of ₱0.10 per pound of cotton produced and sold to spinning mills. The funds needed for this purposes estimated at ₱350,000 in FY 1960, ₱500,000 in FY 1961, and ₱700,000 in FY 1962 should be raised from an additional tax on imported textiles.

11.) Amendment of the National Internal Revenue Code eliminating the 7 per cent tax on the gross sale of raw rubber locally produced will encourage the production of this essential commodity. In this connection, a follow-up on the requirement for rubber companies to produce their rubber needs should be undertaken.

12.) To improve the competitive position of our export crop producers in the world market, they should be provided with sufficient foreign exchange for the importation of machinery, spare parts, fertilizers and insecticides.

Livestock Production

13.) Appropriation of ₱2 million annually for three years for the importation of superior breeds of animals for breeding purposes to be undertaken by the Bureau of Animal Industry. Seventy (70) per cent of the animals imported shall be for propagation in government stock farms and the remaining thirty (30) per cent shall be for immediate sale to livestock raisers. The progeny of those raised in government stock farms shall also be sold at cost after satisfying the needs of the government for replacement of stock. The stock to be imported should come, as much as possible, from places known to be free from contagious and infectious diseases, and should undergo strict quarantine before they are finally distributed.

To support the importation and distribution of livestock, there is need for expanding the facilities of the existing five stock farms, ten breeding stations, two breeding centers and the establishment of two new stock farms in Mindanao for the propagation of the stock. There is also need for a quarantine station where imported animals will be kept for quarantine before they are finally distributed. For these purposes, ₱800,000 should be provided for in FY 1960, ₱500,000 in FY 1961 and ₱300,000 in FY 1962.

14.) The Bureau of Animal Industry with the assistance of the Bureau of Agricultural Extension should undertake a periodic and regular nationwide immunization program to safeguard poultry, swine, cattle, carabaos and other animals from infectious disease. In this connection, ₱150,000 a year should be provided to expand the existing laboratory facilities of the Bureau of Animal Industry for research and for the production of vaccines, etc. A veterinary parasitologist should be recruited under the United Nations Expanded Technical Assistance Program to assist in the research work in the Bureau of Animal Industry and the College of Veterinary Medicine.

Fish Production

15.) The Bureau of Fisheries and the Bureau of Forestry should coordinate the work on the speedy disposal of numerous pending application for fishpond permits in their respective offices. In order to expedite the resolution of conflicts arising from overlapping fishpond claims, the Secretary of Agriculture and Natural Resources should send to the field at least six (6) representatives who should be vested with quasi-judicial or judicial powers to investigate any conflicting interests among claimant applicants. Report of the investigation should be made within one month after the hearing of each case to the Secretary who in turn should make the decision within one month after the receipt of the report of the investigation. The amount of ₱100,000 a year should be made available for traveling expenses of these representatives, for salaries of stenographer-typists, and for other expenses.

16.) The existing demonstration fish and oyster farms that have already served their purposes should be sold and the proceeds should be used to establish new fish or oyster demonstration farms in places where big potentials for these endeavors exist and await development.

17.) The acquisition of fishing boats, nets and gear, and other fishing appliances valued at ₱4.7 million which have been scheduled for procurement under Reparations in 1959 to 1962 should be expedited. As proposed, the costs of boats and equipment by year are ₱3.3 million in 1959, ₱0.20 million in 1960, ₱0.70 million in 1961 and ₱0.5 million in 1962. These boats should be awarded to deserving applicants or to established fishing firms in the country.

18.) Extensive fish stocking of depleted fresh-water units by the Bureau of Fisheries with artificially reared and/or salvaged young migratory fishes that have been stranded and could not reach these waters. This project will require establishment of fish hatcheries and nursery ponds for rearing and acclimitization of young and newly hatched fishes until they can take care of themselves when stocked in natural waters. One each of these hatchery and nursery ponds should be established in Lake Paoay (Ilocos Norte), Laguna de Bay (Laguna) and Lake Bato (Camarines Sur) in 1960; one each in Lake Taal (Batangas), Lake Naujan (Mindoro) and Lake Buluan (Cotabato) in 1961; and one each in Lake Balinsasayao (Oriental Negros), Camalaniugan (Cagayan) and Santiago (Isabela) in 1962. An amount of ₱900,000 should be made available for these purposes to be spent at the rate of ₱300,000 a year during the three-year period.

19.) There should be undertaken by the Bureau of Fisheries with U.N. technical assistance an extensive exploratory fishing survey for tuna and other deep-sea resources which would guide private entrepreneurs to develop them. The amount of ₱150,000 a year should be made available for the operational expenses of the 250-ton survey boat that is expected to be acquired from reparations in 1960. The proceeds from the catch of the fishing operation during the survey should accrue to the special fund of the Bureau of Fisheries created under Act 4003, otherwise known as Fisheries Act. This fund is used exclusively for the development of the fishery resources.

20.) Expand the fisheries research work at the Dagatdagatan Experimental Fishery Station in Navotas, Rizal. The U.N. should be requested for a Technical Assistant who will conduct research studies and at the same time train local fishery researchers. For the additional expenses on this expanded research activities the amount of ₱200,000 a year for three years should be provided.

21.) Encourage the development of pearl culture industry preferably by local entrepreneurs or through joint ventures between local and alien firms in accordance with the existing laws.

22.) The financing of deep-sea fishing ventures should be supported by a fisheries guarantee fund which should be made available at the rate of ₱2 million a year for three years.

23.) The activities of the Bureau of Fisheries relating to the enforcement of fishery laws, rules and regulations should be coordinated with those of the local units of the law enforcement agencies.

Forestry

24.) A sustained and systematic information campaign to make the public appreciate the importance of forests and secure the cooperation and support of the masses in conservation measures should be undertaken by utilizing all available educational media and mobilizing all pertinent agencies and organization — public and private — for the purpose. The national, provincial and municipal forestry councils should be reorganized and revitalized to lead in the movement.

25.) Adequate protection of the forests from kaingin-making, squatting and wanton destruction must be provided. Settlers shall be directed to and accommodated in alienable agricultural lands; a close cooperation and coordination should be worked out between the Bureau of Forestry and the local units of the Philippine Constabulary, municipal police, courts of justice, etc., on matters relating to the prevention, detection, and/or apprehension, prosecution and speedy disposition of cases of forest law violations.

26.) The present land classification system should be redirected towards accelerating: (a) the delimitation of areas to be set aside as permanent forests, marking their boundaries clearly and providing signboards on conspicuous places; (b) the classification and establishment of permanent zones for pastures, tree farms, woodlands, etc. This will require ₱100,000 in FY 1960, ₱200,000 in FY 1961 and ₱300,000 in FY 1962 for survey expenses. In this connection, a law giving security to areas declared as permanent forests and pasture zones should be enacted.

27.) To plug leakages in forest revenues arising from absence of scalers to measure and invoice logs in many logging areas and to assess and levy the corresponding forest charges on logs abandoned in the forests and to penalize damage done to young timber by destructive logging, more govenment scalers should be provided. The ₱200,000 required yearly for this purpose will not only bring about substantial increase in revenues but also promote closer utilization of the timber resources.

28.) Sustained-yield management through the practice of selective logging should be enforced in all permanent forests; licensees shall be charged with more responsibility over the management and protection of the areas granted to them; and operators of forest concessions (10,000 hectares and over) shall be required to put up a wood processing plant, at least a sawmill, to make use of the major portion of the logs cut in the concession. For working out logging plans, supervising the implementing of these plans, etc., ₱100,000 a year for three years shall be provided.

29.) Reforestation now being undertaken by the Bureau of Forestry should be re-oriented and accelerated by: (a) improvement plantings of logged-over areas and, (b) drawing in, through proper incentives, the participation of villagers and private enterprise in the reforestation of open lands. The program should give priority to barren critical watersheds; provide mass employment and vocational training for the youth, particularly among those living in the rural districts; promote the development of plantations of quick-maturing forest crops, such as bamboo, acacia, firewood, matchwood, pulpwood, lumbang, etc., to supply raw materials for existing and prospective industries. This will require an outlay of ₱1 million a year for three years.

30.) Enactment of a law prohibiting assessment of lands within public forests and penalizing violations thereof.

31.) Enactment of a law empowering the Director of Forestry to dispose of forestry products through public bidding and for other purposes.

Land Tenure

32.) The purchase and resale of landed estates by the Land Tenure Administration should be so directed in such a way that in providing land for the landless the productivity of the land distributed is not reduced. It may be necessary to institute a supervised credit program along with the sale of lots.

33.) The NARRA should accelerate placement of qualified farmers on settlement areas properly selected, sub-divided and provided with the basic facilities necessary for the development of progressive farm life. In this connection, the NARRA should, as special program, establish one agricultural colony a year for three years. Every colony should be located with the assistance of the Department of Agriculture and Natural Resources in a suitable area crossed by a vecinal road, subdivided by the Bureau of Lands, connected to a principal highway, and provided with a health center by the Department of Health, a school by the Bureau of Public Schools, and a community building by NARRA.

The settlers to these colonies should be strictly screened. Preference should be given to graduates of agricultural schools and colleges. Each settler should be allocated a farm lot of about 8 hectares and a homelot of 5,000 square meters which shall be titled as soon as the cultivation requirements have been complied with. No farm or homelot may be alienated within 25 years from the issuance of the title without the approval of the Secretary of Agriculture and Natural Resources.

Agricultural Credit

34.) The cooperative movement should be strengthened by placing more emphasis on the educational aspects of the program and the proper training of personnel to handle same; by appropriating ₱20 million a year for three years to serve as guarantee for ACCFA's borrowings from financial institutions; and by a careful supervision of the transactions of the Central Cooperative Exchange and the

FaCoMas. The guarantee fund shall, however, be provided only after an evaluation of ACCFA's activities and a complete audit of its accounts have indicated the need for same. Agricultural credit could be further improved by encouraging the establishment of more rural banks and cooperative credit unions.

Agricultural Research and Extension

35.) Agricultural research now being undertaken by the different agencies should be closely coordinated and intensified and the extension service which bridges the research institutions and the farmers should be geared more to the actual needs and resources of the farms and farm households.

Concluding Remarks

The success of the program hinges on its acceptance by the public once it is duly approved. Its success also depends on the timely release of the appropriations called for and the orderly and efficient organization of the various agencies of the government that will implement the various phases of the program. It is necessary that the Program be understood and appreciated so that everyone will give his wholehearted cooperation in its implementation.

Chapter 6

INDUSTRIAL DEVELOPMENT PROGRAM

A. Resume

The proposed three-year plan in manufacturing and mining considers the current economic situation and problems and estimates the probable gains that these two development sectors could contribute to a rising level of output, income and employment.

It recognizes the foreign exchange shortage as a major impediment to the achievement of further growth, which accounts for the current idle industrial capacity existing in the country. Of the existing industrial firms, the average aggregate actual capacity only amounts to about 52 per cent. The existence of idle capacity, however, is viewed in the program as an asset instead of a liability to the national economy.

Measures, therefore, to remedy this problem are suggested.

The manufacturing and mining program is addressed largely to the production of raw materials such as metallic products and basic chemicals from the country's indigenous resources to feed existing industrial firms, the integration of the textile industry, the production of wheat flour, pulp and paper, cement, ceramics, sheet and plate glass, petroleum refining, leather tanning, food manufacturing and cottage industries development.

It recommends priority in the allocation of foreign exchange to existing firms according to the degree of product essentiality, the types of new ventures which should be implemented and the necessary policies which should govern the provision of a favorable climate of investment as an incentive for private investment decisions and actions.

By and large, the manufacturing and mining program is a private enterprise development program and is closely integrated with the other development sectors of the economy upon which its smooth and more rapid growth relies. The capital requirements call for an amount of ₱298.53 million for FY 1960, ₱334.43 million for FY 1961 and ₱377.45 million for FY 1962. The dollar component by year amounts to $104.8 million, $111.4 million and $137.4 million, respectively.

The program is expected to solve the current essential industrial idle capacity due to the shortage of foreign exchange, the rather apparent lopsidedness in the current pattern of industrial development, and the lack of the required integration between manufacturing on one side and mining and agriculture on the other. It also includes the public management adjustments necessary to improve the present set-up and avoid undue "red-tape" which may discourage private entrepreneurial decisions and actions.

Should the plan be implemented as proposed, the estimated foreign exchange savings and/or earnings it would generate would amount to about $38.6 million in FY 1961, $90.9 million in FY 1962, $214.1 million in FY 1963, and $244.5 million in FY 1964.

The plan is believed practicable and feasible to undertake considering the resources available. The plan, however, can only acquire meaning through official adoption and implementation of the policies and measures recommended therein by the Office of the President and the Congress of the Philippines.

B. The Manufacturing and Mining Development Program

The Current Situation

A very modest shift in the structure of the economy has taken place from 1951 to 1957 with the industrial sector slightly moving forward. From 1947 to 1951, the rate of growth was fairly rapid due to the physical reconstruction and rehabilitation taking place then. This shift is characterized by a change in the structure of industrial development, departing from the pre-war traditional pattern of export goods production to one that includes production of manufactured goods for the home market.

During the last decade, however, there is evident expansion of the manufacturing sector as shown by the number and variety of industrial enterprises that have been set up. Many types of new and necessary industries were established under the tax-exemption law. The absolute value of industrial production in 1957 exceeded that of 1951 (generally regarded as the year dividing the period of post-war recovery and expansion) by ₱295 million or a rise of 31.5 per cent. This increase should have accounted for an increase in the share of manufacturing to national income were it not for the rapid expansion of the agricultural and other sectors. The achievements in manufacturing were the result of the efforts of both private enterprise and government, with the government providing the proper investment climate which improved business expectations and induced private enterprise to make the investments in various manufacturing fields.

To a limited extent, government engages in a few industrial enterprises, as for instance, cement production, textiles, shipyard and drydock, shipbuilding and fertilizer. Public investment is premised on the principle that the government has to pioneer in fields where private capital is timid. In a few instances, government invests in important enterprises which are too big for private enterprise to undertake, like steel mills and power development. The current public policy, however, governing government enterprises is for government to withdraw the moment private enterprise indicates its willingness to take over. The sale of the Bacnotan cement plant and the NDC nail plant are cases in point.

The range of incentives provided by government during the last ten years consisted of import control, foreign exchange rationing, tax exemption, a flexible tariff system, availability of long-term credit from public financial institutions, the prevention of overcrowding in specific industrial fields, banning of certain types of imports, shift in the allocation of foreign exchange from consumer items to the financing of capital goods and raw materials, investments in social overhead projects, industrial promotions and training, and with respect to gold production, the Gold Subsidy Program replaced later on by the Central Bank Blocked-Peso Account Policy.

In short, public policies and projects have helped largely in establishing the investment climate which has made possible the now discernible beginnings that the country has accomplished in the field of industrialization.

The foregoing accomplishments may be summarized as follows:

Manufacturing accounted for only 12.2 per cent of national income in 1950; in 1957 it accounted for 14 per cent. Mining showed a similar trend, accounting for only 0.8 per cent of national income in 1950; in 1957 it accounted for 1.5 per cent.

The increasing rate of contribution to national output by the manufacturing and mining sectors indicates the induced gradual shift taking place in the structure of the economy.

A shift in the employment structure has also taken place. In 1947, about 452,000 or 7 per cent of the total gainfully employed labor force was registered in manufacturing; in 1957, this increased to about one (1) million or 12.7 per cent. About 17,800 or 0.28 per cent of the gainfully employed labor force was registered in mining in 1948; in 1957, this increased to about 33,500 or 0.41 per cent.

In 1949, the index of the physical volume of manufacturing production (1955 — 100) was 46.9, moving up to 66.4 in 1951 and 124.7 in 1957. In 1957, however, lower rates of growth were achieved compared to 1956. In total manufactures, the physical volume of production in 1957 increased by 7.8 per cent while in 1956 the rate of increase was 15.7 per cent. Non-durable manufactures made a

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N.B. Data on the index of the physical volume of production were taken from the Central Bank Annual Report for 1957 and the CB Statistical Bulletin of March, 1958.

gain of 7.8 per cent in 1957 and 14 per cent in 1956. In durable manufactures, the increase in the physical volume of production reached 7.8 per cent which was much lower than the achieved in 1956 of 23.6 per cent.

In the non-durable group of manufactures, however, substantial production increases were noted in leather products, rubber, textiles, bakery products, processed fish, tobacco, pulp and paper, beer, wine, and petroleum products. In durable manufactures increases in production were led by concrete products, clay and cement, manufactures of machinery, electrical machinery, limestone products, glassware and glass containers, furniture and fixtures.

Among manufactured products whose production levels fell in 1957 were those of asbestos, metal products and transport equipment in the durable manufactures group. In non-durable manufactures, soft drinks and distilled spirits; wearing apparel and footwear; cocoa, chocolate, coffee, and sugar confectionery; meat preservation; and manufactured articles of paper and paper board suffered a decline.

The trend in the physical volume of output and the increasing investments in specific industrial enterprises during the last two or three years are corroborated by the achievement in the development of industrial enterprises.

In mining, the accomplishment from 1949 to 1957 was substantial. In 1949, the physical volume index of production (1955 — 100) was 47.5, moving up to 76.2 in 1951 and 123.7 in 1957. The year 1957 registered an increase of 12.9 points over that of 1956.

Volumewise, mining output in 1957 exceeded that of 1940 in some cases. The production of refractory and metallurgical chromite, combined, in 1957 exceeded the 1940 level by 275.9 per cent. Copper registered an increase of 345 per cent in 1957 over the 1940 level and iron by 8.5 per cent. Manganese production, in 1957, however, was still 38 per cent and lead 14.2 per cent below the 1940 levels. Comparing the 1949 with the 1940 output, only chromite showed an increase of 27.8 per cent over pre-war level. Iron ore was still short by 78.3 per cent, lead by 60 per cent, manganese by 46.3 per cent, and copper by 34 per cent.

Comparing 1957 with 1949, however, substantial production increases were noted. Refractory chromite output increased by 270.8 per cent, manganese by 573.9 per cent, iron ore by 263.9 per cent, lead by 115 per cent, rock asphalt by 97.5 per cent, coal by 55 per cent, and metallurgical chromite by 39.3 per cent. The only drop in production between the two periods was noted in rock asphalt to the extent of 97.5 per cent.

Comparing the mining output in 1957 and 1956, the picture has changed to a great extent showing mixed trends. The minerals which exhibited increases in output are as follows: manganese by 587.1 per cent, sand and gravel by 157.3 per cent, salt by 82.6 per cent, rock asphalt by 61 per cent, copper by 60.9 per cent, mercury by 11.5 per cent, refractory chromite by 5.2 per cent. On the other hand, the production of zinc dropped by 68.3 per cent, lead by 62.4 per cent, iron ore by 6.5 per cent, silica by 14.8 per cent, silver by 11.4 per cent and gold by 6.4 per cent. Mineral exports with the exception of gold and manganese showed decreases in export value. Hardest hit, however, in the world market in 1957 were metallurgical chrome and iron ore which accounted for the drop in production. A similar downward trend is shown by refractory chromite, lead and zinc.

Problems and Prospects

The above analysis of the current manufacturing and mining situation portrays the progress thus far achieved in these two development sectors. What becomes the problem however, is the further increase that manufacturing and mining could contribute to a rising level of output, income and employment, considering the limiting factors that now confront the two development fields.

The problems of industrial development in the Philippines are the following: (1) the available supply of foreign exchange for the importation of capital goods and raw materials; (2) the supply of investible funds; (3) the supply of necessary skills; (4) the available supply of power and other types of basic facilities; and (5) the size of the market.

The most serious barrier to a more rapid rate of industrial development in the Philippines today is the foreign exchange shortage. The expansion of the industrial capacity of a country calls for the allocation over a period of time of foreign exchange for the importation of the desired capital goods and necessary raw materials. To the extent that the country can not provide the necessary foreign exchange for these purposes, the rate of industrial development becomes slower than what is desired. Despite the increase in production of processed and manufactured consumers goods, the country has not effected sufficient savings in foreign exchange to support the raw material requirements of established industries. It is estimated that the average level of operations of existing industrial plants is only about 50 per cent of rated capacity. Moreover, many applications for the importation of capital goods for the establishment of new essential industrial enterprises have been either disapproved or could not be acted upon for lack of foreign exchange.

As a problem, the availability of investible funds for industrial development is not as serious as in the case of foreign exchange. In public and private financial institutions there appears to be adequate credit available for the purpose. The problem becomes a matter of redirecting the allocation of credit from real estate and consumption loans towards industrial financing.

Unlike in most underdeveloped countries, the supply of technical manpower and skilled labor is not much of a problem in the Philippines. The educational system has provided basic training in the manual skills for a considerable portion of the labor force which shortens the period of adaptation and training to specific skilled jobs involved in industrial processes. Similarly, the extent of higher education in this country has provided professional, technological and managerial training as basis for meeting the requirements of the industrial development program.

The problem with respect to power in the Philippines lies not so much in the adequacy of its supply but in its cost. Cost is also the problem with transportation particularly water transportation. Cheap power and cheap transportation are essential to industrial development.

The size of the market does not seem to be an urgent problem. There are more opportunities for industrial investments for which there is sufficient domestic demand for the corresponding products.

In the field of mining development, the problems are namely: the fall of the prices of base metals such as iron ore, copper, nickel and chromite in the world market; the high costs of production in the mining industry; high costs of transportation; and insufficiency of foreign exchange for the importation of modern and more efficient equipment.

The prospect of mining depends largely on the pace of industrial development that will take place, particularly in those areas which require minerals as raw materials, and on the rate of displacement of some major metal raw material imports by locally produced intermediate products.

The Plan

Considering the problems confronting the manufacturing and mining sectors of the economy and the extent to which they might hold back the rate of development in these fields, the following plan is being presented.

The proposed investment plan in manufacturing and mining considers the given situation and problems and what could be done about them. The plan gives emphasis, therefore, on the improvements which could still be made, knowing fully well the limiting factors which might hold back the anticipated rate of growth in these sectors and, consequently, their contribution to output, income and employment.

The formulation of the manufacturing and mining plan is guided by the following priority considerations:

(1) To establish industries that will produce basic products such as steel and basic chemicals to meet largely the requirements of existing industries;

(2) To develop industries that will produce desirable types of import substitutes;

(3) To establish industries that will process to a higher stage our export products in so far as this will not adversely affect demand for them abroad;

(4) To establish industries that will process the raw materials required by existing industrial plants;

(5) To improve the technical features and quality of the principal exports;

(6) To assist in providing additional employment opportunities for the growing labor force.

The foregoing are the longer run objectives of the manufacturing program.

As an immediate objective, it is desirable to expand industrial output by the immediate utilization on a selective basis of the existing idle industrial capacity which should be viewed largely as an asset to the economy. The advantage of giving preference in the utilization of available foreign exchange for the importation of the raw material requirement of under-utilized essential industries is that output, income and employment, to a certain extent, are automatically and immediately realized.

For the development of the manufacturing and mining sector along these lines, the desired magnitude of investment may be seen in Table 1 (*page* 72). The table indicates the capital of the manufacturing and mining plan requiring ₱298.53 million for the implementation of projects in the first program year or FY 1960. The currency components of this amount consist of $104.89 million and ₱88.75 million. For the second program year financial requirement consists of $111.45 million and ₱111.53 million or a total of ₱334.43 million. For the third program year, a total of ₱377.45 million will be needed or $137.49 million and ₱102.47 million. Of the total capital requirements for the first program year, private enterprise is expected to contribute 77.66 per cent leaving 22.34 per cent to the public sector; in the second program year the share of the private sector amounts to 74.93 per cent and in the third 79.32 per cent. The share of

Table 1. CAPITAL REQUIREMENTS OF THE MANUFACTURING AND MINING PLAN PUBLIC AND PRIVATE, FOR FY 1960 TO FY 1962

(In Millions)

Sector	FY 1959-60			FY 1960-61			FY 1961-62			Grand Total		
	Dollar	*Peso*	*Total*	*Dollar*	*Peso*	*Total*	*Dollar*	*Peso*	*Total*	*Dollar*	*Peso*	*Total*
A. Manufacturing	93.14	72.55	258.83	95.05	87.83	277.93	117.89	72.67	308.45	306.08	233.05	845.21
Public	19.47	20.74	59.68	24.20	27.45	75.85	26.55	16.95	70.05	70.22	65.14	205.58
Private	73.67	51.81	199.15	70.85	60.38	202.08	91.34	55.72	238.40	235.86	167.91	639.63
B. Mining	11.75	16.20	39.70	16.40	23.70	56.50	19.60	29.80	69.00	47.75	69.70	165.20
Public	2.00	3.00	7.00	2.00	4.00	8.00	2.00	4.00	8.00	6.00	11.00	23.00
Private	9.75	13.20	32.70	14.40	19.70	48.50	17.60	25.80	61.00	41.75	58.70	142.20
TOTAL	104.89	88.75	298.53	111.45	111.53	334.43	137.49	102.47	377.45	353.83	302.75	1,010.41
Total Public	21.47	23.74	66.68	26.20	31.45	83.85	28.55	20.95	78.05	76.22	76.14	228.58
Total Private	83.42	65.01	231.85	85.25	80.08	250.58	108.94	81.52	299.40	277.61	226.61	781.83
Percent of Private to Total	79.53	73.25	77.66	76.49	71.80	74.93	79.23	79.55	79.32	78.46	74.85	77.38

the public sector in the implementation of the three-year plan ranges from about 21 to 25 per cent of the total capital requirements due to the urgent necessity of completing the NASSCO steel mill to provide private industry with various iron and steel intermediate products, the expansion of shipyard and drydock facilities, the further development of cottage industries, coal development, industrial research and geophysical and geological surveys.

Private enterprise will play the vital role in the implementation of the manufacturing and mining program. This conforms with the essence of free private enterprise inherent in the country's political system. The public side of the investment plan is limited to only four governmental projects, the breakdown of which is given in more detail elsewhere in the plan. The dominant role of the government in industrial and mining development will be the provision of the proper investment climate or that wide range of incentives which are expected to induce private investment in these fields of business activity.

The Manufacturing Plan

The current situation, problems and objectives discussed earlier in this plan form the basis of the determination of investment estimates and the formulation of the required public policies to support the anticipated levels of investments. The scope and coverage of the manufacturing plan is as follows:

Idle Capacity and Raw Material Needs. First priority in the allocation of foreign exchange is prescribed for existing industries producing items of food, clothing and construction, medicine, fuel and educational and office materials to the extent of their full capacity, if possible, in order to utilize the existing idle industrial capacity and immediately expand output. Based on the estimate of the Central Bank of the raw material requirements of existing essential industries, the total requirement at full capacity in 1958 would reach $687.2 million. To raise the foreign exchange support to essential existing firms at varying levels, the following table illustrates the magnitude of the requirements

Table 2. RAW MATERIAL REQUIREMENTS OF EXISTING ESSENTIAL INDUSTRIES 1/

Year	*Operating Capacity (Per cent)*	*Foreign Exchange Requirement. (in million)*	*As Per Cent of 1957 Merchandise Import Disbursements*
1957-	52	$359 (actual) 2/	54.56
1959-60	60	$412	62.61
1960-61	70	$481	73.10
1961-62	80	$550	83.59

1/ Assumption: a. Full capacity as estimated by Central Bank of $687.2 million
b. that prices are constant
c. that no raw material import substitution takes place
d. CB merchandise import disbursements in 1957 totalling $658 million.

2/ Source: Central Bank of the Philippines Ninth Annual Report, 1957, p. 70.

The foregoing table is presented illustratively to indicate the gravity of the problem of foreign exchange reserves and the capacity of the country to earn and spend foreign exchange. The achievement of even a 60 per cent operational capacity may not appear plausible to reach in the short-run. However, examining the foreign exchange requirement for raw materials as indicated for the first year of the program (FY 1959-60) at 60 per cent operational capacity or $412 million, the increase of 8 per cent from 1957 to FY 1959-60 appears possible should a drastic shift be resorted to in the allocation and utilization of foreign exchange on a more selective basis among sectors and within industry itself. Supported by the emphasis of investment in raw materials production in the manufaturing and mining fields, and the displacement of imports by local output, both in terms of finished products and raw materials, the solution of the raw material import problem may not appear very remote.

The absence of statistical data on the classification of imported raw materials even by category group pose a difficulty in the determination of the desired foreign exchange allocation shift within industry itself. In order to maximize the output of existing highly essential industrial firms, the allocation of foreign exchange for raw materials imports should give priority to the following industries:

1. food processing and manufacturing and related industries
2. textile manufacturing and related industries
3. manufacturing of various construction materials
4. drug manufacturing
5. manufacturing of materials for general administration and educational purposes
6. refining of petroleum products.

It is understood that within the above industry listing, some of the raw materials are already being produced internally to a certain extent and should therefore be excluded.

The so-called non-essential and luxury industries will suffer in the short-run due to the above prescribed shift in the allocation of foreign exchange to supply the raw materials needed by industries producing basic consumption goods and construction items. The approach to the grant of foreign exchange to achieve the objective of utilizing idle capacity should be highly selective (degree of essentiality) until the foreign exchange earning capacity of the country improves.

The Investment Plan in Manufacturing. The proposed investment plan in the manufacturing field seeks to achieve the aforestated objectives of industrial development. The plan gives emphasis on the production of raw materials and semi-finished products for the consumption of manufacturing industries producing finished or end-products. Similarly, the plan also includes projects on food processing, clothing and construction materials production to fill partly the rising demand in the country. Others are those that will widen the market for these products. The purpose is to give attention to the interdependence of desirable industry sectors and open up investment opportunities in industrial fields where the importation of finished goods and raw materials loom large.

The illustrative listing of projects in the manufacturing investment plan indicated for the private sector may be seen in Table 3, page 76.

The investment program in manufacturing considers the importance to the national economy of basic industries upon which end-product firms depend for their continuing supply of principal raw materials or semi-finished goods. It emphasizes the major channels of investment desired which are principally the metal, non-metallic, and chemical industries. The program embraces the completion of the NASSCO steel mill (included under the public sector), the establishment of a copper smelting and refining plant, nickel smelting, ferro alloys, and the production of various chemicals and chemical products like fertilizer, soda ash and caustic soda, glacial acetic acid, industrial explosives, benzene hexachloride, etc. Similarly, it gives emphasis on the expansion of cement output, the production of sheet and plate glass, ceramics and others to supply partly the requirements of the construction industry, the integration of the cotton textile industry to fill largely the rising demand for cloth, and the production of pulp and paper, processed and manufactured food, and upper leather. In consonance with the growth of the industrial sector, the plan also considers the growing fuel needs of the country and allows for the establishment of additional oil refineries including the gradual development of coal resources. A small amount of investment is also considered for the growth of cottage industries to be promoted by the Bureau of Public Schools and the Presidential Assistant on Community Development in order to develop skills by region in accordance with available resources. Cottage industries development is expected to contribute its share in solving the under-employment problem.

The manufacturing investment plan calls for a total capital outlay of ₱258.83 million in FY 1959-60 broken down into $93.14 million and ₱72.55 million. Of the total amount, ₱59.68 million is indicated for the public sector divided into $19.47 million and ₱20.74 million. The capital outlay in the public sector covers largely the investment

Table 8. PRIVATE INVESTMENT PROGRAM IN MANUFACTURING
(In Millions)

	Annual Capacity	FY 1959-1960			FY 1960-1961			FY 1961-1962			GRAND TOTAL		
		Dollar	Peso	Total	Dollar	Peso	Total	Dollar	Peso	Total	Dollar	Peso	Total
TOTAL	—	73.67	51.81	199.15	70.85	60.38	202.08	91.34	55.72	238.40	235.86	166.91	639.68
I. *Metal Industry*	—	9.47	5.15	24.09	11.39	7.67	30.45	12.39	8.99	33.77	33.25	21.81	88.31
1. Copper Smelting & Refining	12,000 M.T.	1.57	1.66	4.80	1.36	1.66	4.38	1.00	.83	2.83	3.93	4.15	12.01
1. Surigao Nickel Smelting 1/	5,000 M.T.	7.90	3.49	19.29	7.86	3.49	19.21	7.62	1.74	16.98	23.38	8.72	55.48
3. Ferro-Alloy	48,000 M.T.	—	—	—	1.52	1.62	4.66	2.27	2.42	6.96	3.79	4.04	11.62
4. Agric. Tools & Implements	1,000 M.T.	—	—	—	0.65	0.90	2.20	1.50	4.00	7.00	2.15	4.90	9.20
II. *Non-Metal Industry*	—	5.68	7.51	18.87	5.62	8.00	19.24	10.16	13.87	34.19	21.46	29.38	72.30
1. Cement	15 Mill. Bags	3.20	4.41	10.81	3.20	4.41	10.81	9.60	13.23	32.43	16.00	22.05	54.05
2. Semi-Coke (Briquetted)	18,000 M.T.	—	—	—	0.37	0.43	1.17	0.56	0.64	1.76	0.93	1.07	2.93
3. Glass (Sheet & Plate)	10,000 M.T.	1.25	1.50	4.00	1.00	1.00	3.00	—	—	—	2.25	2.50	7.00
4. Ceramics	45,600 M.T.	1.23	1.60	4.06	1.05	2.16	4.26	—	—	—	2.28	3.76	8.32
III. *Textile Industry*	—	12.98	7.52	33.48	10.21	6.[illegible]	26.74	11.94	5.12	29.00	35.13	18.96	89.22
1. Cotton	162.4 Mill. Yds.	12.24	7.00	31.48	8.37	5.00	21.74	9.00	3.00	21.00	29.61	15.00	74.22
2. Ramie	10.4 Mill. Yds.	0.74	0.52	2.00	1.84	1.22	6.00	2.94	2.12	8.00	5.52	3.96	15.00
IV. *Pulp and Paper Industry*	116,600 M.T.	14.73	7.61	37.07	10.52	5.44	26.48	16.84	8.68	42.86	42.09	21.73	105.91
V. *Food Processing Industry*	—	4.15	6.76	15.06	3.40	5.80	12.60	3.15	5.48	11.78	10.70	18.04	39.44
1. Wheat Flour Mills	200,000 M.T.	2.25	2.88	7.38	1.50	1.92	4.92	1.25	1.60	4.10	5.00	6.40	16.40
2. Food Canning (Fish, Meat & Vegetable)	32,652 M.T.	1.90	3.88	7.68	1.90	3.88	7.68	1.90	3.88	7.68	5.70	11.64	23.04
VI. *Chemical Industry*	—	8.84	5.72	23.40	11.93	8.79	32.65	10.51	6.06	27.08	31.28	20.57	88.13
1. Benzene Hexachloride (BHC)	1,500 M.T.	—	—	—	0.40	0.10	0.90	0.10	0.10	0.30	.50	.20	1.20
2. Ammonium Sulfate	50,000 M.T.	2.87	0.87	6.61	2.58	1.09	6.25	1.72	0.22	3.66	7.17	2.18	16.52
3. Ammonium Nitrate	30,000 M.T.	—	—	—	1.52	1.58	4.62	4.78	2.38	11.94	6.30	3.96	16.56
4. Urea	30,000 M.T.	2.54	2.04	7.12	2.82	2.06	7.70	1.00	1.06	3.06	6.84	5.16	17.88
5. Soda Ash-Caustic Soda-Chlorine	44,100 M.T.	1.93	1.91	5.77	2.41	2.40	7.22	0.48	0.48	1.44	4.82	4.79	14.43
6. Industrial Explosives	3,000 M.T.	—	—	—	0.43	0.44	1.30	0.65	0.70	2.00	1.08	1.14	3.30
7. Acetic Acid (Glacial)	1,200 M.T.	—	—	—	0.27	0.22	0.76	0.28	0.22	0.78	.55	.44	1.54
8. Coconut Oil	432,000 M.T.	1.50	0.90	3.90	1.50	0.90	3.90	1.50	0.90	3.90	4.50	2.70	11.70
VII. *Petroleum Refining Industry*	20.59 Mill. Bbls	15.57	11.04	42.18	15.38	17.76	48.52	24.05	6.82	54.92	55.00	35.62	145.62
VIII. *Leather Tanning Industry*	3.0 Mill. Sq. Ft.	—	—	—	0.15	0.10	0.40	0.05	0.20	0.30	0.20	0.30	0.70
IX. *Development of Cottage Ind.*	—	2.25	0.50	5.00	2.25	0.50	5.00	2.25	0.50	5.00	6.75	1.50	15.00

1/ Intended either for private financing, government financing or private-public joint financing according to the Nickel Law (R.A. 2077) requirement of the NASSCO steel mill in Iligan and the expansion of the shipyard and drydock. The appropriation for industrial research covers the financing of industrial research activities under the National Science Development Board in the search for new production processes and techniques and in the production of new products.

The breakdown of the public investment side of the manufacturing plan is shown on the following table:

Table 4. PUBLIC INVESTMENT PROGRAM IN MANUFACTURING, FY 1960-62
(*In Millions*)

Project & Annual Capacity	*FY 1959-60*			*FY 1960-61*			*FY 1961-62*			*GRAND TOTAL*		
	Dollar Portion	*Peso Portion*	*Total (Pesos)*	*Dollar Portion*	*Peso Portion*	*Total (Pesos)*	*Dollar Portion*	*Peso Portion*	*Total (Pesos)*	*Dollar Portion*	*Peso Portion*	*Total (Pesos)*
TOTAL	19.47	20.74	59.68	24.20	27.45	75.85	26.55	16.95	70.05	70.22	65.14	205.58
I. Metal Industries ..	18.50	19.50	56.50	22.90	25.65	71.45	25.05	15.65	65.75	66.45	60.80	193.70
1. Iron Smelting & Steel Rolling 1/ 300,000 MT ...	17.90	17.00	52.80	22.70	24.30	69.70	24.90	15.00	64.80	65.50	56.30	187.30
2. Dock and Shipbuilding 3,000 GT	0.60	2.50	3.70	0.20	1.35	1.75	0.15	0.65	0.95	0.95	4.50	6.40
II. Industrial Research	0.97	1.24	3.18	1.30	1.80	4.40	1.50	1.30	4.30	3.77	4.34	11.88

The total investment in the various projects included in manufacturing, both public and private, is hoped to bring about the anticipated structural change. The materialization of the investment plan is expected to increase output and effect foreign exchange earnings and/or savings as shown in Table 5. (Page 78)

The above table shows the contribution of the investment in the manufacturing plan to output and foreign exchange savings and/or earnings. The plan is geared largely to the production of raw materials and the integration of some industries with the former filling largely the demand of existing firms. The anticipated gross foreign exchange savings and/or earnings are estimated to reach $38.6 mil-

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1/ Completion date as planned will be FY 1962-63; estimated capital requirement during that year amount to $6 million and ₱1.45 million.

Table 5. ESTIMATED VALUE OF OUTPUT, FOREIGN EXCHANGE SAVING AND/OR EARNING ARISING FROM THE PROPOSED INVESTMENT BY INDUSTRY GROUP (FY 1960-1961) 1/

(In Thousand Dollars)

	FY—1960-1961			FY—1961-1962			FY—1962-1963			FY—1963-1964		
	Value of Output 2/	Imported Raw Material Cost	Dollar Saving &/ or Earning	Value of Output	Imported Raw Material Cost	Dollar Saving &/ or Earning	Value of Output	Imported Raw Material Cost	Dollar Saving &/ or Earning	Value of Output	Imported Raw Material Cost	Dollar Saving &/ or Earning
TOTAL	46,159	7,516	38,643	114,615	23,719	90,896	286,016	71,871	214,145	329,761	85,265	244,496
A. GOVERNMENT SECTOR	8,496	3,230	5,266	29,725	5,366	24,359	47,557	5,484	42,073	56,298	5,786	50,512
I. Metal Industry	8,496	3,230	5,266	29,725	5,366	24,359	47,557	5,484	42,073	56,298	5,786	50,512
B. PRIVATE SECTOR	37,663	4,286	33,377	84,890	18,353	66,537	238,459	66,387	172,072	273,463	9,479	193,984
I. Metal Industry	—	—	—	—	—	—	28,876	667	27,709	33,968	779	33,189
II. Non-Metal Industry	1,535	308	1,227	4,437	794	3,643	7,725	1,198	6,527	12,626	2,338	10,288
III. Textile Industry ..	16,815	2,850	13,965	23,853	6,018	17,835	37,157	9,707	27,450	40,792	10,734	30,058
IV. Pulp and Paper Industry	—	—	—	3,132	146	2,986	20,810	1,070	19,740	24,192	1,128	23,064
V. Food Processing Industry	3,102	1,128	1,974	18,061	11,395	6,666	24,087	14,391	9,696	30,690	18,590	12,200
VI. Chemical Industry .	16,211	—	16,211	35,407	—	35,407	67,601	106	67,495	69,551	123	69,438
VII. Petroleum Refining Industry	—	—	—	—	—	—	52,253	39,080	13,173	60,969	45,590	15,379
VIII. Leather Tanning Industry	—	—	—	—	—	—	450	168	282	575	197	378

1/ Derived from Tables A, B and C, Appendix 1; no output is expected during the first program year or FY 1959-1960.
2/ CIF Value if Imported and FOB Value if Exported; based on 1956 and 1957 prices.

lion in FY 1961, $90.9 million in FY 1962, $214.1 million in FY 1963 and $244.4 million in FY 1964 (Please see Appendix I, Tables A, B, and C for details). By FY 1964, the programmed contribution to foreign exchange savings and/or earnings of the metal industry is expected to reach $83.7 million, the chemical industry $69.4 million, the textile industry $30 million, the pulp and paper industry $23 million. The Republic Flour Mills, for instance, required $1.2 million for machinery and equipment, whereas the expected dollar savings by producing wheat flour locally will amount to about $2 million annually at 50,000 m.t. capacity. The Bataan Pulp and Paper Mills, using largely local raw materials, will cause an annual foreign exchange savings of about $4 million, operating at a capacity of 60 tons of pulp and paper per day. The estimates were projected beyond the program period to portray the magnitude of foreign exchange savings and/or earnings should some raw materials (intermediate products) be produced locally out of the country's indigenous resources as strongly recommended in the plan.

The estimated gross foreign exchange savings and/or earnings arising from the proposed investments have been arrived at after deducting from the estimated output the imported raw material costs. As planned, the demand for imported raw materials would show up beginning the second program year. The estimated raw material requirements, valuewise of the plan are as follows: FY 1961 — $7.52 million, FY 1962 — $23.72 mililon, FY 1963 — $71.87 million, and FY 1964 — $85.27 million.[1]

Altogether the above investment plan is tied up with that of mining to insure that mining activity and output will provide the mineral requirements of the intermediate product firms other than exports, and widen the market for various mineral products.

The Plan for Mining Development

The investment proposal in manufacturing includes, among others, the completion of NASSCO's integrated steel mill, the establishment of a copper smelter and refining plant, ceramics, fertilizer, and ferro-alloys production which will depend greatly on investment in the mining sector. The investment plan in manufacturing and mining shows the required interrelationships between the two sectors which are coordinated to a certain feasible extent.

The combined public and private investment in this development field is shown in Table 6. (Page 80)

Largely, the mining investment plan is intended for implemen-

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[1] Only the imported raw materials costs were considered; other operational foreign exchange costs are intractable.

Table 6. ESTIMATED PUBLIC AND PRIVATE INVESTMENT IN MINING
(In Millions)

	FY 1959-1960			FY 1960-1961			FY 1961-1962			GRAND TOTAL		
	$	₱	Total (In ₱)	$	₱	Total (In ₱)	$	₱	Total (In ₱)	$	₱	Total (In ₱)
TOTAL	11.75	16.20	39.70	16.40	23.70	56.50	19.60	29.80	69.00	47.75	69.70	165.20
Public Investment	2.00	3.00	7.00	2.00	4.00	8.00	2.00	4.00	8.00	6.00	11.00	23.00
Private Investment	9.75	13.20	32.70	14.40	19.70	48.50	17.60	25.80	61.00	41.75	58.70	142.20
Per cent of Private to Total	82.9	81.4	82.3	87.8	83.1	85.8	89.7	88.4	88.4	82.36	85.84	88.40

Table 7. ESTIMATED PRIVATE INVESTMENT IN MINING
(In Millions)

	FY 1959-1960			FY 1960-1961			FY 1961-1962			GRAND TOTAL		
	Dollar Portion	*Peso Portion*	*Total Pesos*	*Dollar Portion*	*Peso Portion*	*Total Pesos*	*Dollar Portion*	*Peso Portion*	*Total Pesos*	*Dollar Portion*	*Peso Portion*	*Total Pesos*
TOTAL	9.75	13.20	32.70	14.40	₱19.70	48.50	17.60	25.80	61.00	41.75	58.70	142.20
Metal	7.75	10.70	26.20	11.25	14.00	36.50	13.25	18.50	45.00	32.25	43.20	107.70
1. Gold (silver, lead, zinc and copper)	1.50	2.00	5.00	2.00	2.00	6.00	2.00	3.00	7.00	5.50	7.00	18.00
2. Copper	1.00	2.50	4.50	1.50	3.00	6.00	2.00	4.00	8.00	4.50	9.50	18.50
3. Manganese	.50	1.00	2.00	.50	2.00	3.00	.75	2.00	3.50	1.75	5.00	8.50
4. Chromite:												
a) Refractory	.50	1.00	2.00	.75	1.00	2.50	.75	1.50	3.00	2.00	3.50	7.50
b) Metallurgical	—	—	—	.50	1.00	2.00	.75	1.00	2.50	1.25	2.00	4.50
5. Iron	1.75	2.50	6.00	2.50	3.00	8.00	3.00	3.00	9.00	7.25	8.50	23.00
6. Nickel (Nonoc Island)*	2.50	1.70	6.70	3.50	2.00	9.00	4.00	4.00	12.00	10.00	7.70	27.70
Non-Metallic	2.00	2.50	6.50	3.15	5.70	12.00	4.35	7.30	16.00	9.50	15.50	34.50
1. Coal	1.00	1.00	3.00	1.50	2.00	5.00	2.00	2.00	6.00	4.50	5.00	14.00
2. Pyrite	.50	.50	1.50	.65	.70	2.00	.85	1.30	3.00	2.00	2.50	6.50
3. Lime	.50	1.00	2.00	1.00	3.00	5.00	1.50	4.00	7.00	3.00	8.00	14.00
Capital Replacement of existing Mines**	3.25	3.00	9.50	3.75	5.00	12.50	4.50	6.00	15.00	11.50	14.00	37.00

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* Intended for private financing, government financing or as a private-public joint venture according to the Nickel Law (RA 2077).
** Not included in total.

tation by the private sector with government providing the proper investment climate. The details for the investment by project in the private sector is shown on Table 7. (Page 81)

The foregoing estimate of investment by the private sector considers the need for manufacturing firms as well as those for the export market.

For the public sector, investment is limited to coal development and survey for the Cebu Portland Cement Company and a project on geophysical and geological survey of the country to expand the currently surveyed area of about 10 per cent.

The suggested public investment in mining is shown on the following table:

Table 8. ESTIMATED PUBLIC INVESTMENT IN MINING
(In Millions)

	FY 1959-60			*FY* 1960-61			*FY* 1961-62			*Grand Total*		
	$	₱	*Total*	$	₱	*Total*	$	₱	*Total*	$	₱	*Total* (₱)
TOTAL	2.00	3.00	7.00	2.00	4.00	8.00	2.00	4.00	8.00	6.00	11.00	23.00
1. Coal Development (CEPOC)	$1.00	2.00	4.00	1.50	2.00	5.00	1.50	2.00	5.00	4.00	6.00	14.00
2. Geophysical & Geological Surveys (Bu. of Mines)	1.00	1.00	3.00	.50	2.00	3.00	.50	2.00	3.00	2.00	5.00	9.00

The estimated total investment in mining considers the integration of mining and manufacturing activity. Emphasis, therefore, is given to fields of investments which would call for further development of the country's iron ore reserves; gold mining in view of its by-products copper, lead, zinc and silver; nickel; manganese; and copper reserves themselves. In the non-metallic group, the expansion in the production of coal, pyrite and lime are indicated.

For the first year of the mining program, a total of ₱39.70 million is considered, broken down into $11.75 million and ₱16.20 million. Of the total investment, ₱32.70 million is intended for the private sector and only ₱7.00 million for the public sector.

The foregoing investment in mining, public and private, is anticipated to increase mining output as follows:

Table 9. PRODUCTION GOALS IN MINING[1]
(In Thousands)

	FY 1959-60	FY 1960-61	FY 1961-62
Gold and Silver	1,040.0 oz.	1,100.0 oz.	1,060.0 oz.
Metallics	2,209.0 M.T.	3,549.5 M.T.	4,660.0 M.T.
Non-Metallics	2,600.0 M.T.	3,200.0 M.T.	5,600.0 M.T.

To realize the above anticipated output, however, the implementation of the projects in the mining plan will require foreign exchange to finance the importation of supplies necessary in mining operations. The foreign exchange costs of such supplies by year are estimated as follows:

Table 10. ESTIMATED FOREIGN EXCHANGE REQUIREMENTS FOR SUPPLIES OF PROPOSED PROJECTS IN MINING
(In Thousand Dollars)

	FY 1959-60	FY 1960-61	FY 1961-62
TOTAL	2,300	3,200	3,600
1. Explosives			
a. Dynamite	500	600	800
b. Blasting Caps	100	200	300
c. Fuse	200	300	300
2. Chemicals	200	200	200
3. Spare Parts	1,000	1,500	1,500
4. Others	300	400	500

Development of Cottage Industries [1]

Cottage industries have long been carried on in the Philippines but their income and employment potentials have not been fully tapped due to weaknesses in organization, marketing, financing and product standardization. It is precisely for this reason that government must do something to revive the interest in this productive activity and expand it if possible as an initial approach to the solution of under-employment in the country.

The three-year economic and social development program includes a plan for the development of cottage industries by private individuals and groups through incentives to be provided by government. The incentives will come in the form of the training of adults at community level by craftsmen-teachers of the Bureau of Public Schools; marketing assistance to be extended to cottage craft producers by both the Bureau of Public Schools, the Presidential Assistant on Community Development and the National Marketing Corporation, and possibly the Philippine Tourist and Travel Association, Inc.; and the provision of blue-printed plans and bills of materials for specific, acceptable and standardized cottage products as a production guide for home producers.

Cottage products for development shall be those included under the following categories: loom-weaving, embroidery, woodcraft, hat-weaving, mat-weaving, metal craft, rattan and bamboo crafts, ceramics, shell craft, and abaca and coconut coir products. Product development and the training of skills shall be implemented largely from the regional point of view, based on the type of raw material resources available in specific regions, and shall be done largely by the Home Industries Division of the Bureau of Public Schools.

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[1] The educational phase is treated under the Social Development Program, the marketing phase under the Trade & Commerce Program and the production phase in the Manufacturing Program.

For the initial implementation of the cottage industries program, ₱5 million is indicated annually for the private sector and partly for government. This will cover the capital requirements of the program broken down into $2.25 million and ₱0.50 million for each of the three program years. Some of the equipment are expected to come from the reparations program. For the training phase, the sum of ₱1.2 million shall be appropriated for the Home Industries Division to finance the hiring of 300 teacher-craftsmen and a few home industries supervisors, the expansion of the craftsmen building, furniture and equipment and travel and operating expenses. For the marketing phase, the sum of ₱500 thousand shall be appropriated for the marketing assistance functions of the Bureau of Public Schools and another ₱1 million for the marketing assistance to home craft producers by the National Marketing Corporation, both in the form of revolving funds. The intention is to provide the Bureau with such funds as to enable it to purchase on the spot acceptable cottage products for resale direct to consumers and/or to the National Marketing Corporation. The revolving fund provided for NAMARCO shall finance purchases of acceptable products from either the Bureau of Public Schools or producers accessible to its organizations for resale either locally to domestic users and exporters or directly abroad. This arrangement takes advantage of the organization of the Bureau of Public Schools as a product buying and collecting agency with NAMARCO as one of the principal outlets.

To help assure a domestic market for some cottage products like paper baskets, waste baskets, coir or abaca door mats, ash trays, and a few other items, the government through the Department of General Services shall prescribe an Administrative Order requiring purchase of such items by all government offices.

Experts from the UN shall be enlisted and trainees must be sent abroad for specialization through the UN, Colombo and ICA training programs particularly on loom-weaving, bamboo crafts, designing, and the operation of cottage industries machines obtained under the reparations program.

It is believed that the further development of cottage industries will rely greatly on the marketing, training, and technical assistance that government will have to provide. The scattered and heterogeneous nature of cottage craft products requires an effective coordination of both the production and marketing aspects. The program is anticipated to provide for this necessary arrangement.

Recommendations

The implementation of the above program of investment in manufacturing and mining will revolve, by and large, around public policy. The approach indicates the type of environment that government has to provide in order to induce private investment in the channels listed illustratively in both the manufacturing and mining plans. Altogether, public policy on government enterprises and the extent to which public investment might complement or compete with private business ventures are clarified. On the other side of the plan, a public policy calling for the necessary adjustments in public management procedures which are believed conducive to the reduction of administrative "red-tape" is in order so as not to dampen private investment decision and action. A stronger coordination, therefore, of the activities of public offices having to do with the establishment of manufacturing and mining enterprises has to be effected.

I. Recommendation Requiring Presidential Sanction

1. *With respect to the allocation of foreign exchange.*
   a. First priority shall be given by the foreign exchange allocating agency to the raw material requirements, at higher levels, of existing firms engaged in the following: food manufacturing and related industries, textile manufacturing and related industries, construction materials and related industries, drug manufacturing, general administration and education materials and the fuel industry. Also included are other essential industries, the local raw material cost of which will be at least 75 per cent of total raw material cost.
   b. Foreign exchange for the establishment of new capacity shall be allocated for the implementation of the projects included in the manufacturing and mining investment plans.
   c. During the first two years of the program, foreign exchange shall not be allocated for the establishment of new non-essential and luxury industries, the classification of which shall be determined by the National Economic Council and the Central Bank of the Philippines in order to discourage in the meantime investment in these areas.

      The foreign exchange allocation of existing firms producing non-essential and luxury goods which are dependent on imported raw materials shall be cut temporarily by 50 per cent or more in order to bring about a shift in the utilization of foreign exchange favoring in the basic and highly productive industries.

2. *Import substitution or displacement.* It shall be the policy that domestic output both in terms of raw materials and finished products shall displace as they are produced the corresponding imports after giving due allowance to the population rate of growth.
3. *In respect of the public projects.* All means must be sought in financing the NASSCO steel mill in Iligan in order to produce the domestic demand which is now developing. This shall apply to the implementation of the other two public projects included in the plan.
4. *In the export field.* Investment in the processing of traditional exports into higher stages of production as well as the production of new export goods shall be encouraged as a policy through the immediate approval of investment proposals along this line of business activity.
5. *Sale of government enterprises.* To implement the present public policy of selling government enterprises that private enterprise is willing to buy, ways and means must be sought to hasten the process.
6. *In the financial field.* The financial resources of public financial institutions must be channelled largely to productive enterprises by making long-term loans available for the purpose.
7. *Foreign investments.* Foreign investments are welcome in the financing of any of the projects listed in the manufacturing and mining program to the extent of 40 per cent of the proposed capitalization, reserving 60 per cent for Filipino capital.
8. *Procurement of capital goods.* For the financing of capital goods imports, the deferred payment plan shall be preferred due to the current shortage of foreign exchange. Similarly, foreign loans shall be tapped for the purpose from any free world source. The implementation of this recommendation shall be guided by the maximum benefits to be derived by the country under such an arrangement. The most advantageous machinery prices, interest rates, and terms of payment shall be the major criteria.
9. *Industrial taxation.* Republic Act 901, or the tax exemption

law, which expired on December 31, 1958, shall not be considered for further extension.

10. *Incentives to gold production.* A re-examination of the present policy on gold production in the light of the benefits that the country derives from its implementation shall be made jointly by the National Economic Council, the Central Bank of the Philippines and the Bureau of Mines which shall be constituted into a formal committee.

II. Recommendations Requiring Legislative Action.

1. *Creation of a National Development Authority.* In order to strengthen the government's efforts in planned development, there shall be created a National Development Authority to serve as the implementing arm of the National Economic Council in carrying out the project and policy recommendations in the NEC social and economic development plan pertaining to public enterprises. The creation of NDA will abolish the Office of Economic Coordination, the National Development Company, the Board of Liquidators, the Investment Assistance Commission, and the Anti-Dumping Board. Corollary to this a National Authority on Trade and Industry (treated elsewhere in the overall plan) shall also be created to carry out program and policy recommendations pertaining to private enterprise.

   The NDA shall be vested with the following functions:

   a. To implement approved policies governing the establishment, operation and/or proposed sale of government enterprises.
   b. To follow-up and evaluate the progress of existing firms and to recommend to NEC measures for their improvement.
   c. To supervise, coordinate and assist government industrial and service enterprise in complementing private business activity.

In all cases, the policies and management criteria which may be prescribed by the NDA from time to time in pursuing its activity shall be subject to the review and final approval of the National Economic Council before adoption by the said Authority.

The implementation of this management scheme through legislation will call for an appropriation of ₱0.5 million.

2. *Division of the National Shipyards and Steel Corporation into two separate corporations.*
   a. The present National Shipyards and Steel Corporation shall be split into two distinct corporate bodies each to be known as the:
      (1) National Steel Corporation
      (2) National Shipping and Shipyards Corporation
   b. Both organizations shall be made stock corporation with the power to sell shares of stocks to private enterprise. Alien participation in these business organizations shall not be allowed to exceed 40 per cent of the total capitalization.
   c. The powers vested in the National Development Company in the Overseas Shipping Act of 1955 shall be transferred to the National Shipping and Shipyards Corporation in order to integrate public investment activity in shipping and shipbuilding and coordinate such activity with private enterprise.
3. *Amendment of Section* 13 *of the Corporation Law.* Any person or corporation not engaged in mining shall be allowed to hold unlimited interests in not more than three mining corporations, provided that should a person or corporation hold interests in more than three, such interests shall not exceed 40 per cent of the stocks of any such corporation.
4. *Use of coal for power generation.* In areas where coal is available, the grant of franchises for the establishment of electric power plants shall be conditioned on the use of coal as fuel, if feasible, to widen the market and utilization of the product.
5. *Amendment of the Petroleum Act.* To amend several provisions of R.A. No. 387, otherwise known as the Petroleum Act of 1949, for the purpose of clarifying certain provisions of the law in accordance with the experience and observations of the Bureau of Mines and the Department of Agriculture and Natural Resources. The word "materials" in the Act shall not be interpreted to mean "raw materials".

The success in the implementation of the foregoing policy and project recommendations on industrial and mining development will depend upon the institution of concomitant monetary and fiscal reforms.

As envisioned, the industrial and mining plan stresses the vital importance of the production of raw materials and semi-finished products out of the country's indigenous resources to fill the requirements of existing firms; the integration of the manufacturing plan with the mining and agricultural plans; the integration of the textile industry; the establishment of flour mills; the expansion of the shipyards and drydock facilities; and the creation of a public machinery necessary to improve the services of government to entrepreneurs by forming the National Development Authority and the National Authority on Trade and Industry as implementing arms of the National Economic Council. This approach is premised on the maximization of the use of foreign exchange which is considered the most serious obstacle to further economic development.

The plan welcomes foreign investments in the form of joint ventures or partnership with Filipino capital and a re-allocation of credit and foreign exchange resources to the most desirable channels of development.

Table A. ESTIMATED IMPORTED RAW MATERIALS AND FOREIGN EXCHANGE REQUIREMENTS OF NEW INVESTMENT, FY 1959-1964*

(*Value In Thousand Dollars*)

	PROGRAM				*PERIOD*		*POST PROGRAM*			
	FY 1959-60		FY 1960-1961		FY 1961-1962		FY—1962-1963		FY 1963-1964	
	Quantity	*Value*	*Quantity*	*Value*	*Quantity*	*Value*	*Quantity*	*Value*	*Quantity*	*Value*
TOTAL	—	—	—	7,516	—	23,719	—	71,871	—	85,265
A. GOVERNMENT SECTOR:	—	—	—	3,230	—	5,366	—	5,484	—	5,786
I. Metal Industry	—	—	—	3,230	—	5,366	—	5,484	—	5,786
1. Iron Smelting & Steel Rolling	—	—	—	980	—	3,116	—	3,284	—	4,536
Electrodes	—	—	1,072 M.T.	214	3,467 M.T.	693	4,615 M.T.	923	5,084 M.T.	1,017
Graphite Electrodes	—	—	119 M.T.	49	385 M.T.	160	513 M.T.	213	365 M.T.	235
Refractories	—	—	23,451 M.T.	153	35,527 M.T.	448	40,981 M.T.	583	41,413 M.T.	639
Miscellaneous Supplies	—	—	—	226	—	264	—	301	—	301
Ingot Moulds	—	—	1,139 M.T.	228	5.230 M.T.	1,046	6,029 M.T.	1,214	6,720 M.T.	1,344
Ferro-Alloy	—	—	488 M.T.	110	2.242 M.T.	505	—	—	—	—
2. Dock and Shipbuilding	—	—	—	2,250	—	2.250	—	2.250	—	2,250
B. PRIVATE SECTOR:	—	—	—	4,286	—	18,353	—	66,387	—	79,479
I. Metal Industry	—	—	—	—	—	—	—	667	—	779
1. Copper Smelting & Refining	—	—	—	—	—	—	—	—	—	—
2. Surigao Nickel Smelting	—	—	—	—	—	—	—	661	—	772
Electrodes	—	—	—	—	—	—	4,812 M.T.	553	5,613 M.T.	646
Graphite	—	—	—	—	—	—	540,000 Lbs.	108	630,000 Lbs.	126
3. Ferro-Alloy	—	—	—	—	—	—	—	—	—	—
4. Agric. Implement & Tools, Hardwares, Ballbearings, etc.	—	—	—	—	—	—	—	6	—	7
II. Non-Metal Industry	—	—	—	308	—	794	—	1,198	—	2,338
1. Cement	—	—	—	—	—	340	—	737	—	1,873
Gypsum	—	—	—	—	—	33	—	71	—	181
Packing Materials	—	—	—	—	—	111	—	241	—	611
Spare Parts	—	—	—	—	—	180	—	390	—	990
Contingencies	—	—	—	—	—	16	—	35	—	89
2. Semi-Coke (Briquetted)	—	—	—	—	—	—	—	—	—	—
3. Glass (Sheet and plate)	—	—	—	—	—	85	—	16	—	18
Soda Ash	—	—	—	—	682 M.T.	53	—	—	—	—
Salt Cake	—	—	—	—	205 M.T.	13	289 M.T.	16	273 M.T.	18
4. Ceramics	—	—	—	—	—	—	—	—	—	—
Glaze and chemicals	—	—	—	308	—	388	—	445	—	449

Table A. (Con'td)

	PROGRAM				PERIOD		POST PROGRAM			
	FY 1959-60		*FY* 1960-61		*FY* 1961-62		*FY* 1962-63		*FY* 1963-64	
	Quantity	*Value*	*Quantity*	*Value*	*Quantity*	*Value*	*Quantity*	*Value*	*Quantity*	*Value*
III. Textile Industry	—	—	—	2,850	—	6,018	—	9,707	—	10,734
1. Cotton	—	—	—	2,850	—	5,898	—	9,447	—	10,314
Raw Cotton	—	—	7.4 M. Lbs.	2,590	161.1 M. Lbs.	5,495	25.3 M. Lbs.	8,865	27.7 M. Lbs.	9,695
Chemicals and Dyestuffs	—	—	—	260	—	403	—	582	—	619
2. Ramie	—	—	—	—	—	120	—	280	—	420
Chemicals and Dyestuffs	—	—	—	—	—	120	—	260	—	420
IV. Pulp and Paper Industry	—	—	—	—	—	—	—	—	—	—
Salt cake, alum, size, clay, resin, miscellaneous	—	—	—	—	—	146	—	1,070	—	1,128
V. Food Processing Industry	—	—	—	1,128	—	11,395	—	14,391	—	18,590
1. Wheat Flour	—	—	—	—	—	8,951	—	10,443	—	14,266
Wheat Grains	—	—	—	—	115,200 M.T.	8,525	134,400 M.T.	9,946	183,600 M.T.	13,587
Additives and Chemicals	—	—	—	—	—	426	—	497	—	679
2. Food Canning										
Tin Cans, Oil, and Rubber Sealing Compounds	—	—	—	1,128	—	2,444	—	3,948	—	4,324
VI. Chemical Industry	—	—	—	—	—	—	—	106	—	123
1. Benzene Hexachloride (BHC)	—	—	—	—	—	—	—	—	—	—
Benzene	—	—	—	—	—	—	129,100 Gals.	52	150,616 Gals.	60
2. Ammonium Sulfate	—	—	—	—	—	—	—	—	—	—
3. Ammonium Nitrate	—	—	—	—	—	—	—	—	—	—
4. Urea	—	—	—	—	—	—	—	—	—	—
5. Soda Ash-Caustic Soda	—	—	—	—	—	—	—	—	—	—
6. Industrial Explosives	—	—	—	—	—	—	—	54	—	63
Nitrocellulose	—	—	—	—	—	—	27 M.T.	25	32 M.T.	30
Paraffin	—	—	—	—	—	—	18 M.T.	5	21 M.T.	5
Paper	—	—	—	—	—	—	[illegible] M.T.	24	140 M.T.	28
7. Acetic Acid (Glacial)	—	—	—	—	—	—	—	—	—	—
8. Coconut Oil	—	—	—	—	—	—	—	—	—	—
VII. Petroleum Refining Industry					—	—	—	39,080	—	45,590
(Crude oil, chem., additives, etc.)										
VIII. Leather Tanning Industry										
Hides and Chemicals	—	—	—	—	—	—	—	168	—	197

* ASSUMPTIONS: a) Requirements are based on a rising level of operating capacity as follows: first year—60%; second year—70%; third year and thereafter, 80%.
b) Imported materials would be displaced by locally produced items as they become available.
c) Prices based on the 1956 and 1957 levels.

Table B. ESTIMATED ANNUAL PRODUCTION OF NEW INVESTMENTS, FY 1959-1964*

(Value In Thousand Pesos)

	PROGRAM				*PERIOD*		*POST PROGRAM*			
	FY 1959-60		FY 1960-61		FY 1961-62		FY 1962-63		FY 1963-64	
	Quantity	*Value*	*Quantity*	*Value*	*Quantity*	*Value*	*Quantity*	*Value*	*Quantity*	*Value*
TOTAL	—	—	—	92,318	—	229,229	—	572,031	—	659,522
A. GOVERNMENT SECTOR:	—	—	—	16,991	—	59,449	—	95,114	—	112,596
I. Metal Industry	—	—	—	16,991	—	59,449	—	95,114	—	112,596
1. Iron Smelting & Steel Rolling	—	—	—	10,951	—	47,369	—	89,074	—	100,516
Pig Iron (Cast)	—	—	56,160 M.T.	10,951	65,520 M.T.	12,449	74,880 M.T.	14,602	74,800 M.T.	14,602
Welded Steel Pipes	—	—	—	—	—	—	21,600 M.T.	9,828	25,200 M.T.	11,466
Black Sheets	—	—	—	—	—	—	57,600 M.T.	23,904	67,200 M.T.	27,888
Medium Structurals	—	—	—	—	28,800 M.T.	12,240	33,600 M.T.	14,280	38,400 M.T.	16,320
Plates	—	—	—	—	14,000 M.T.	5,976	16,800 M.T.	6,972	19,200 M.T.	7,968
Billets	—	—	—	—	57,600 M.T.	16,704	67,200 M.T.	19,488	76,800 M.T.	22,272
2. Dock and Shipbuilding	—	—	—	6,040	—	12,080	—	6,040	—	12,080
Interislands Vessels 1,600 gross tons to 3,200 gross tons	—	—	3,200 G.T.	6,040	6,400 G.T.	12,080	3,200 G.T.	6,040	6,400 G.T.	12,080
B. PRIVATE SECTOR:	—	—	—	75,327	—	169,780	—	476,917	—	546,926
I. Metal Industry	—	—	—	—	—	—	—	56,752	—	67,935
1. Copper Smelting and Refining	—	—	—	—	—	—	—	11,070	—	12,915
Copper, Electrolytic	—	—	—	—	—	—	7,200 M.T.	9,504	8,400 M.T.	11,088
Gold	—	—	—	—	—	—	20,458 OZ.	1,432	23,868 OZ.	1,671
Silver	—	—	—	—	—	—	75,240 OZ.	134	87,780 OZ.	156
2. Surigao Nickel Smelting	—	—	—	—	—	—	—	30,651	—	37,484
Nickel, Electrolytic	—	—	—	—	—	—	3,130 M.T.	10,214	4,181 M.T.	13,644
Cobalt, Electrolytic	—	—	—	—	—	—	260 M.T.	2,298	303 M.T.	2,672
Billets, Mild Steel	—	—	—	—	—	—	114,480 M.T.	17,172	133,560 M.T.	20,034
Caustic Soda (76%)	—	—	—	—	—	—	3,888 M.T.	972	4,536 M.T.	1,134
3. Ferro-Alloy	—	—	—	—	—	—	—	13,200	—	15,400
Ferro-Chrome	—	—	—	—	—	—	2,400 M.T.	1,320	2,800 M.T.	1,540
Ferro-Manganese	—	—	—	—	—	—	12,000 M.T.	6,600	14,000 M.T.	7,700
Ferro-Silicon	—	—	—	—	—	—	9,600 M.T.	5,280	11,200 M.T.	6,160
4. Agricultural Tools & Implements	—	—	—	—	—	—	—	1,831	—	2,136
Hoes, Shovels & Rakes	—	—	—	—	—	—	22,800 Units	20	26,600 Units	35
Adzes and Hatchets	—	—	—	—	—	—	15,600 Units	23	18,200 Units	27
Plows, cultivators, and harrows	—	—	—	—	—	—	19,500 Units	1,463	22,750 Units	1,706
Push carts and wheelbarrows	—	—	—	—	—	—	9,000 Units	315	10,500 Units	368

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* a) Annual Output is based on a rising level of operating capacity as follows: first year—60%; second year— 70%; and third year and thereafter 80%.
b) Value is based on 1956 and 1957 CIF Manila (Sources: Central Bank of the Phils., Bureau of Census & Statistics & Industrial Chemicals, Faith, et. al.

	PROGRAM				PERIOD		POST PROGRAM			
	FY 1959-60		FY 1960-61		FY 1961-62		FY 1962-63		FY 1963-64	
	Quantity	*Value*	*Quantity*	*Value*	*Quantity*	*Value*	*Quantity*	*Value*	*Quantity*	*Value*
II. Non-Metal Industry	—	—	—	3,071	—	8,874	—	15,449	—	25,252
1. Cement	—	—	—	—	1.8 M. Bags	2,686	3.9 M. Bags	5,819	9.9 M.Bag	14,771
2. Semi-Coke (Briquetted)	—	—	—	—	—	—	—	2,493	—	2,909
Semi-Coke ("Coalite")	—	—	—	—	—	—	10,800 M.T.	1,512	12,600 M.T.	1,764
Coal Tar	—	—	—	—	—	—	1,800 M.T.	981	2,100 M.T.	1,145
3. Glass (Sheet & Plate)	—	—	—	—	6,000 M.T.	1,440	7,000 M.T.	1,680	8,000 M.T.	1,920
4. Ceramics	—	—	—	3,071	—	4,748	—	5,457	—	5,652
Floor tiles, roofing tiles & pipes	—	—	5.7 M. pcs.	342	6.6 M. pcs.	396	7.6 M. pcs.	456	7.6 M.pcs.	456
Firebricks	—	—	4,320 M.T.	1,037	7,200 M.T.	1,728	8,280 M.T.	1,987	8,640 M.T.	2,074
Sanitary Articles	—	—	3,600 M.T.	1,206	4,200 M.T.	1,407	4,800 M.T.	1,608	4,800 M.T.	1,608
Dishes & Tablewares	—	—	1,170 M.T.	216	4,875 M.T.	902	5,655 MT.	1,046	6,240 M.T.	1,154
Vetrified Clay Pipes	—	—	1,800 M.T.	270	2,100 M.T.	315	240 M.T.	369	2,400 M.T.	360
III. Textile Industry	—	—	—	33,630	—	47,707	—	74,315	—	81,584
1. Cotton**	—	—	—	33,630	—	46,657	—	72,040	—	77,909
Yarns	—	—	3.42 M. Lbs.	9,630	13.61 M. Lbs	20,415	21.97 M. Lbs.	32,955	24.03 M. Lbs.	36,045
Fabrics	—	—	48 M. Yds.	24,000	79.52 M. Yds.	26,242	118.44 M. Yds.	39,085	126.86 M.Yds.	41,864
2. Ramie	—	—	—	—	—	1,050	—	2,275	—	3,675
Fabrics	—	—	—	—	2.1 M. Yds.	1,050	4.55 M. Yds.	2,275	7.35 M.Yds.	3,675
IV. Pulp and Paper	—	—	—	—	10,800 M.T.	6,264	71,760 M.T.	41,621	83,420 M.T.	48,384
V. Food Processing Industry	—	—	—	6,204	—	36,122	—	48,173	—	61,581
1. Wheat Flour	—	—	—	—	90,000 M.T.	22,680	105,000 M.T.	26,460	150,000 M.T.	37,800
2. Food Canning	—	—	—	—	—	—	—	—	—	—
Canned foods	—	—	6,530 M.T.	6,204	14,149 M.T.	13,442	22,856 M.T.	21,713	25,033 M.T.	23,781
VI. Chemical Industry	—	—	—	32,422	—	70,813	—	135,201	—	139,102
1. Benzene Hexachloride	—	—	—	—	—	—	900 M.T.	720	1,050 M.T.	840
2. Ammonium Sulfate	—	—	—	—	—	—	—	6,709	—	7,827
Ammonium Sulfate	—	—	—	—	—	—	30,000 M.T.	5,700	35,000 M.T.	6,650
Ammonia	—	—	—	—	—	—	621 M.T.	171	725 M.T.	199
Sulfuric Acid	—	—	—	—	—	—	2,070 M.T.	838	2,415 M.T.	978
3. Ammonium Nitrate	—	—	—	—	—	—	18,000 M.T.	2,610	21,000 M.T.	3,045
4. Urea	—	—	—	—	—	—	18,000 M.T.	5,040	21,000 M.T.	5,880
5. Soda Ash Caustic Soda	—	—	—	—	—	—	—	3,510	—	4,470
Soda Ash	—	—	—	—	—	—	17,640 M.T.	1,764	20,580 M.T.	2,058
Caustic Soda	—	—	—	—	—	—	8,820 M.T.	1,746	12,180 M.T.	2,412
6. Industrial Explosives (dynamite)	—	—	—	—	—	—	1,800 M.T.	2,088	2,100 M.T.	2,436
7. Acetic Acid (Glacial)	—	—	86,000 M.T.	32,422	360 M.T.	239	780 M.T.	519	900 M.T.	599
8. Coconut Oil	—	—	—	—	187,200 M.T.	70,574	302,400 M.T.	114,005	302,400 M.T.	114,005
VII. Petroleum Refining	—	—	—	—	—	—	—	104,506	—	121,938
1. Gasoline	—	—	—	—	—	—	3.84 M. Bbls.	41,604	4.48 M.Bbls.	48,538
2. Diesel Oil	—	—	—	—	—	—	1.04 " "	9,614	1.21 " "	11,216
3. Kerosene	—	—	—	—	—	—	1.18 " "	15,180	1.38 " "	17,722
4. Gas Oil	—	—	—	—	—	—	0.51 " "	4,746	0.60 " "	5,538
5. Fuel Oil	—	—	—	—	—	—	5.39 " "	32,692	6.29 " "	38,142
6. L P G	—	—	—	—	—	—	0.04 " "	179	0.05 " "	209
7. Fuel Gases	—	—	—	—	—	—	0.07 " "	491	0.08 " "	573
VIII. Leather	—	—	—	—	—	—	1.8 M.Sq.Ft.	900	2.1 M.Sq.Ft.	1,150

** Includes Synthetic Fibers.

Table C. ESTIMATED ANNUAL FOREIGN EXCHANGE SAVING AND/OR EARNING ARISING FROM PROPOSED NEW INVESTMENTS, FY 1959-1964*

(*In Thousand Dollars*)

	FY 1959-1960	FY 1960-1961	FY 1961-1962	FY 1962-1963	FY 1963-1964
TOTAL	—	38,643	90,896	214,145	244,496
A. GOVERNMENT SECTOR	—	5,266	24,359	42,073	50,512
I. Metal Industry	—	5,266	24,359	42,073	50,512
1. Iron Smelting and Steel Rolling	—	4,496	20,569	41,303	46,722
2. Dock and Shipbuilding	—	770	3,790	770	3,790
B. PRIVATE SECTOR	—	33,377	66,537	172,072	193,984
I. Metal Industry	—	—	—	27,709	33,189
1. Copper Smelting and Refining	—	—	—	5,535	6,458
2. Surigao Nickel Smelting	—	—	—	14,665	17,970
3. Ferro-Alloy	—	—	—	6,600	7,700
4. Agricultural Tools and Implements	—	—	—	909	1,061
I. Non-Metal Industry	—	1,227	3,643	6,527	10,288
1. Cement	—	—	1,003	2,173	5,515
2. Semi-Coke (Briquetted)	—	—	—	1,247	1,454
3. Glass (Sheet and Plate)	—	—	654	824	942
4. Ceramics	—	1,227	1,986	2,283	2,377
III. Textile Industry	—	13,965	17,835	27,450	30,058
1. Cotton	—	13,965	17,430	26,573	28,640
2. Ramie	—	—	405	877	1,418
IV. Pulp and Paper Industry	—	—	2,986	19,740	23,064
V. Food Processing Industry	—	1,974	6,666	9,696	12,200
1. Wheat Processing Industry	—	—	2,389	2,787	4,634
2. Food Canning	—	1,974	4,277	6,909	7,566

VI. Chemical Industry	—	16,211	35,407	67,495	69,438
1. Benzene Hexachloride (BHC)	—	—	—	308	360
2. Ammonium Sulfate	—	—	—	3,355	3,913
3. Ammonium Nitrate	—	—	—	1,305	1,523
4. Urea	—	—	—	2,520	2,940
5. Soda Ash-Caustic Soda	—	—	—	1,755	2,235
6. Industrial Explosives	—	—	—	990	1,155
7. Acetic Acid (Glacial)	—	—	120	260	300
8. Coconut Oil	—	16,211	35,287	57,002	57,002
VII. Petroleum Refining Industry	—	—	—	13,173	15,379
VIII. Leather Tanning Industry	—	—	—	282	378

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* Derived from Tables A and B

APPENDIX I

T D. F [illegible] ATED PRODUCTION GOALS IN MINING

(*In Thousands*)

MINERAL			*Actual*			
METAL			*FY* 1957—*FY*-1959—*FY* 1960—*FY* 1961			
	Form	Unit	1958	1960	1961	1962
1. Gold	Metal	OZ.	397.5	490.0	500.0	510.0
2. Silver	Metal	OZ.	467.3	550.0	600.0	650.0
3. Lead	Metal	M.T.	.9	2.7	3.0	3.3
4. Zinc	Metal	M.T.	—	1.3	1.5	1.7
5. Copper	Metal	M.T.	46.3	50.0	55.0	60.0
6. Manganese	Ore	M.T.	30.3	35.0	40.0	45.0
7. Chromite:						
a) Refractory	Ore	M.T.	507.5	550.0	600.0	700.0
b) Metallurgical	Ore	M.T.	59.4	70.0	100.0	150.0
8. Iron	Ore	M.T.	1,108.8	1,500.0	2,000.0	2,700.0
9. Nickel	Ore	M.T.	—	—	750.0	1,000.0
NON-METALLIC						
1. Coal		M.T.	150.8	500.0	1,000.0	1,300.0
2. Pyrite		M.T.	19.0	100.0	200.0	300.0
3. Lime		M.T.	1,148.3	2,000.0	3,000.0	4,000.0

OZ.—Troy ounce of 31,103496 grams.
M.T.—Metric ton of 1,000 kilos

Chapter 7

SERVICES DEVELOPMENT PROGRAM

A. Resume

The Services Development Program includes capital outlays for construction, transportation, and communications both for the public and private sectors. In this presentation, the Program is divided into: (1) Other public works; (2) Power and water supply; and (3) Transportation system and communications.

The major objective of the Program is to expand the basic capital resources of the country so as to promote the growth of agricultural and industrial production, commerce, and social development, and to provide employment, specially in rural areas. It is estimated that for construction, a total of 97,700 jobs will be provided every year. On the other hand, investments in transportation and communications will generate 48,700 new jobs during the program period.

The investment program calls for about ₱550 million every year of which about ₱175 million will be for public works. It is assumed that the magnitude of investment for public works can be adequately financed without necessarily generating an inflation, provided the basic monetary and fiscal policy measures recommended in the Finance Program are carried.

The following are the highlights of the physical goals that are to be attained during the program period:

a. An increase of more than 257,000 hectares of irrigated land.

b. Construction of 6,600 classrooms to take care of new entrants and partially alleviate existing shortage.

c. Construction of hospital building facilities to accommodate an additional 1,000 hospital beds.

d. Construction of 2,100 low-cost housing units to improve living conditions of people in the slum areas.

e. The increase of power supply in Manila and suburbs by 188,000 KW and 100,000 KW for the Maria Cristina area.

f. Construction of 98 waterworks systems, drilling of 4,200 new artesian wells and the development of 900 springs.

g. Replacement of obsolete interisland vessels to the extent of 26,800 gross tons and the addition of 154,000 gross tons to the Philippine overseas fleet.

h. The extension of the Manila Railroad Co. line to Cagayan valley.

i. The construction, among others, of 5,000 kms. of feeder roads, and the improvement of 16 national ports and 25 airports.

j. The expansion of the government telecommunications system with emphasis on service to the rural areas and the normal growth of private telephone service.

B. The Program

The attainment of a more rapid rate of economic growth depends, by and large, on the existence of the necessary basic facilities and services — power, public works, housing, water supply, transportation and communications. These facilities and services serve to stimulate and promote the growth of the productive sectors of the economy. They provide the economic and social overhead under which the programs of agricultural and industrial development will operate.

Objectives

To support fully the economic development of the country, the services program is designed to achieve the following objectives:

1) To provide the economy with adequate power supply to meet both the immediate and long-run requirements of industrial and non-industrial users;

2) To assist agricultural and industrial production by providing a system of irrigation, highways and feeder roads;

3) To help widen the market for agricultural and industrial products through an integrated system of transportation and communications, including ports and harbor facilities and overseas and inter-island shipping;

4) To provide the physical requirements of the social development program in the form of schoolhouses, hospitals, low-cost housing, and other public buildings;

5) To provide more employment opportunities especially in rural areas by absorbing idle manpower during the off season period.

The services program will require the following new capital outlays:

CONSOLIDATED CAPITAL OUTLAYS OF THE SERVICES PROGRAM
FY 1960-1962
(In Million Pesos)

Project	*FY* 1960	*FY* 1961	*FY* 1962	*TOTAL*
Public Sector				
Other Public Works	57.3	59.8	56.3	173.4
Power & Water Supply	56.4	52.3	58.0	166.7
Transp. & Communications a/	89.7	89.4	90.4	269.5
TOTAL	203.4	201.5	204.7	609.6
Private Sector				
Construction	209.0	244.0	256.0	709.0
Private Power	44.0	17.0	18.0	79.0
1. Meralco b/	39.0	12.0	12.0	63.0
2. Provincial Plants c/	5.0	5.0	6.0	16.0
Transp. & Communications	79.2	90.6	93.0	262.8
TOTAL	332.2	351.6	367.0	1,050.8

Current Situation

Since the end of the war, rapid progress has been made in the reconstruction and rehabilitation of the country's basic facilities and services. Within the span of five years from 1945-1950 the restoration was almost complete. Although this is considered an achievement, the resources of the country were merely utilized to replace the physical facilities that existed before the war instead of being used for expansion purposes.

Up to the end of FY 1958, 46 gravity and 138 communal irrigation systems covering 302,160 hectares and 269 pump irrigation projects serving 44,434 hectares, were undertaken throughout the country. The total installed power capacity of the National Power Corporation and private power companies increased from 124,595 in 1948 to 419,619 KW by FY 1958. Approximately, 27,100, kilometers of new highways and feeder roads have been added to the country's highways, and road systems. The number of schoolhouses and public buildings constructed and rehabilitated since the end of the war is estimated to be 30,000 [1]. The Manila Railroad Company lines in Northern and Southern Luzon have been fully rehabilitated. The country's inter-island shipping has expanded to more than 98,000 gross tons consisting mainly of 142 ships, while 29 new airports have been added to our airport system. For every 322 of the population there was one telephone unit as compared to 562 in 1941.

An expanding economy with a growing population imposes additional requirements for complementary public facilities and services. More schools, hospitals, highways, housing, ports, and similar

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a/ Includes public works for transportation facilities.

b/ Includes $9.9 million for the 6th unit and $3.0 million dollars each year for other facilities. The $9.9 million to be obtained from EX-IM Bank on a deferred payment plan. Depending on actual need, the 7th unit may be installed by FY 1962.

c/ Includes $1.5 million each year for other facilities and parts.

1/ DPWC 1958 Annual Report.

facilities have to be provided on a sustaining basis. As most of these projects are undertaken largely by the government, they require public outlays every year, thus competing with other purely governmental functions for the limited financial resources of the government. In addition to this, their financing also competes for other scarce resources that would otherwise go for financing private and pubic developmental projects.

Public Works

The provision of public works is a traditional function of government. Although much has been accomplished during the past 12 years in the improvement of the physical facilities for agriculture and health, there still remains much work to be done in these fields.

Achievements in Other Public Works. As of 1957, out of 2,768,000 hectares of cultivated land planted to rice about 503,000[1] hectares were irrigated by one type of irrigation system or another. There were also 664 existing river control projects providing protection to approximately 834,000 hectares of agricultural land. Since its establishment the PHHC has built more than 9,350 low-cost housing units located all over the country in 13 housing projects with a total accommodation of a little less than 85,500 persons. In fiscal year 1957 alone, the construction and improvement of more than 3,360 public buildings comprising of schoolhouses, hospitals and other public buildings with a total value of ₱50 million was undertaken.

Problems. Deficiency in food production is to a large extent attributable to inadequate irrigation facilities. Only about 24 per cent of the total cultivated area planted to palay is irrigated. A much smaller area planted to other agricultural crops is also irrigated.

Every year, floods wreck heavy damage to agricultural crops especially in areas along the Pampanga and Agno Rivers in Luzon. River erosion also causes serious damage to many towns and barrios due to the absence of protective works.

Lack of adequate classroom facilities to accommodate even the yearly increase in the number of school children seeking admission to the public elementary and secondary schools has been a perennial problem. This problem in a lesser degree is also true with the public vocational and technical schools.

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[1] Includes private irrigation systems.

There is persistent congestion and overcrowding in hospitals and similar health institutions. Not all of those needing hospitalization could be admitted in existing hospitals. Beds have to be set up in corridors and non-ward areas in many hospitals because of limited physical accommodations.

Many government offices are highly congested, thus impairing health and efficiency. This is true not only in national government offices but also in provincial and municipal government offices.

Slums and squatter areas abound in the suburds and in the cities particularly in Manila. They do not only result in many health and sanitation problems but also create potential breeding places for crime and delinquency.

Objectives. At least to alleviate those conditions, the public works program aims to achieve the following objectives:

1. To provide an expanded program of irrigation systems of all types fully integrated with an accelerated agricultural program;
2. To minimize, if not avoid, the disastrous effects of floods, and river erosions;
3. To provide for the minimum requirements of the public education, health and sanitation programs;
4. To provide more low-cost housing facilities to people living in slum-squatter areas;
5. To relieve the overcrowded condition in government offices in both national and local levels.

To achieve these objectives, the public works capital outlays for the program period will be along the following magnitudes:

OUTLAYS FOR OTHER PUBLIC WORKS PROGRAM
FY 1960 - 1962
(In Million Pesos)

Project	*FY* 1960	*FY* 1961	*FY* 1962	*TOTAL*
Irrigation a/	36.1	37.0	28.5	101.6
1. Gravity	32.4	33.3	24.4	90.1 b/
2. Communal	2.0	2.0	2.0	6.0
3. Pump	1.7	1.7	2.1	5.5
Flood Control	4.6	4.6	8.5	17.7 b/
Housing (PHHC)	2.0	2.5	3.0	7.5
Public Buildings	14.6	15.7	16.3	46.6
1. Elementary & Barrio Schools	10.0	10.0	10.0	30.0
2. Vocational Schools	1.6	1.7	1.8	5.1
3. Hospitals & Sanitaria	2.0	3.0	3.0	8.0
4. Presidencia	1.0	1.0	1.5	3.5
Total	57.3	59.8	56.3	173.4

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a/ In the Program for FY 1957-61, irrigation was included in the Agricultural Development Program.

b/ Includes the dollar component for the Marikina Multi-Purpose Project, ($2.0 million for irrigation; $1.5 million for flood control) to be obtained from loan on a deferred payment plan with Reparations as guarantee.

Recommendations. On the basis of the foregoing conditions, the following measures are recommended:

1. Construction of new and the improvement of existing irrigation systems in areas where increased production can be undertaken at relatively lower costs by expanding the irrigated areas from the present 705,000 [1/] hectares to 962,000 hectares or an increase of more than 257,000 hectares.

2. Construction of more river control projects will be undertaken particularly along the Agno and Pampanga Rivers to help in flood control and minimize the damage to agricultural lands and urban properties. In Manila, dredging of esteros will be undertaken to partially solve the damage caused by floods to private and public properties.

3. Construction of an average of 2,200 classrooms for each year of the program period, to take care of new entrants and to alleviate overcrowding due to serious shortage of classrooms in the elementary and primary schools. Facilities in vocational and technical schools will be improved.

4. Construction of hospital facilities to accommodate 1,000 hospital beds during the program period. This will entail the construction of new hospital buildings and expansion of existing ones.

5. Construction of about 2,100 low-cost housing units in three years to improve the living conditions of people in the slum-squatter areas.

Power and Water Supply

Adequate power and water supply is basic to an expanded economic and social development program. The growth of industries and the rising standard of living require a corresponding expansion in the supply of power and water.

The power supply program covers the development of the NPC integrated power systems particularly in Manila and the Maria Cristina areas, the two major industrial centers of the country; the Meralco power system in the Manila Metropolitan area, and the private plants in the provinces.

Achievements in Power and Water Supply. At present, there are 15 major hydroelectric plants owned and operated by the NPC with a total capacity of 168,750 KW. In addition, the Meralco has 3 power plants with a total capacity of 186,000 KW. The total power capacity of all the independent provincial power systems is about 65,000 KW. Hence, the total available power capacity of the entire country is about 420,000 KW.

[1/] Includes private irrigation systems.

As of the middle of 1958, there were 657 waterworks systems spread over the country providing potable water to more than 5.7 million people. More than 13,500 drilled wells and 618 developed springs serve approximately 3.5 million and 700,000 people, respectively. The country's existing waterworks systems, artesian wells and developed springs serve a total of about 9.9 million people out of a population of more than 23 million.

Problems of Power and Water Supply. The maximum power supply for Manila and suburbs estimated at 282,000 KW is slightly less than the peak requirement of 290,000 KW which occurs during the months of November and December. It is estimated that the demand for power within the area, which is the principal industrial center of the country, will increase by about 12 per cent every year for the next three years. Hence, to meet this increasing power demand, the present power capacity will have to expand correspondingly.

The present power supply in the Maria Cristina area is 50,000 KW which is adequate to meet the present demand of about 32,000 KW. However, NASSCO will soon set up a steel mill which has an additional power requirement of 92,000 KW by 1962. Developments in the Maria Cristina area indicate that the area is fast becoming another industrial center particularly for heavy industries due to the availability of relatively cheap power. With this trend of development, the Maria Cristina system may have to increase its power capacity to 150,000 KW during the next three years. The power capacity of provincial systems of about 65,000 KW is not adequate. These systems are costly to operate and give inefficient service in spite of excessive power rates charged to consumers.

The country's supply of potable water can only serve 43 per cent of the population. About 13.4 million people, especially in the rural areas, do not have safe and potable water. With respect to water for industrial uses, the fact that industrial plants are invariably located in or around Manila and the larger urban centers, their heavy water consumption poses an acute problem. The water supply has to be expanded to meet the requirements of new industrial plants and the increase in population in these areas.

Objectives. In accordance with these considerations, the power and water supply program is premised on the following objectives:

1. To develop the power capacity of the country to support the industrial development program and to meet the increased demand of households;

2. To transmit and make available cheap power to the rural areas and at the same time foster the growth of cottage industries;

3. To supply potable and safe drinking water to as many people as possible in order to safeguard their health; and

4. To provide the water requirements of the industrial development program.

To achieve the above objectives, the power and water supply program will require the following capital outlays:

OUTLAYS FOR POWER AND WATER SUPPLY
FY 1960 - 1962
(In Million Pesos)

Project	*FY* 1960	*FY* 1961	*FY* 1962	*TOTAL*
Power Development (NPC)	36.4	26.2	23.6	86.2 a/
Private Power	44.0	17.0	18.0	79.9
1. Meralco b/	39.0	12.0	12.0	63.0
2. Provincial Plants c/	5.0	5.0	6.0	16.0
Water Supply	20.0	26.1	34.4	80.5 a/
1. Waterworks	15.9	22.0	30.3	68.2
2. Artesian Wells	3.8	3.8	3.8	11.4
3. Spring Development	.3	.3	.3	.9
Total	100.4	69.3	76.0	245.7

Recommendations. 1. In order to meet the increasing power requirement in Manila and the suburbs, completion of the Binga power project and the construction of the Marikina Multi-Purpose project are recommended. These two projects will increase the available power supply of the area by 128,000 KW exclusive of the 60,000 KW additional power capacity that Meraclo will install in this area during the program period.

2. To meet the increasing power demand in the Maria Cristina area, the construction of Maria Cristina power units Nos. 3 and 4 with a total capacity of 100,000 KW are proposed.

3. In line with the community development program, the construction of small hydroelectric power plants with a total capacity

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a/ Includes the dollar component for the Marikina Multi-Purpose Project ($9.3 million for power; $6.6 million for water supply) to be obtained from loan on a deferred payment plan with reparations as guarantee.

b/ Includes $9.9 million for the 6th unit and $3.0 million each year for the other facilities. The $9.9 million to be obtained from EX-IM Bank on a deferred payment. Depending on actual need, the 7th unit may be installed by FY 1962.

c/ Includes $1.5 million each year for other facilities and parts.

of 6,200 KW and the extension of NPC transmission lines to the rural areas are recommended.

4. To serve more people with potable and safe water, the construction and improvement of 98 waterworks systems, the drilling of 4,200 new artesian wells and the development of 900 springs are likewise recommended.

TRANSPORTATION SYSTEM AND COMMUNICATIONS. The mobility of goods and people depends upon the adequacy of the country's system of transportation and communications. By the same token the extent of the utilization of a country's resources depends to a large measure upon the ease by which these resources could be moved at reasonable costs, from places where they are relatively abundant to places where they are scarce. Thus, any program of accelerated development will rely as a consequence on a clearcut program of transportation and communications.

Achievements in Transportation System and Communications. The network of roads and highways of the Philippines as of the end of fiscal year 1958 consisted of more than 51,200 [1/] kilometers. The system is made up of national highways, secondary and feeder roads. As of the same date, our portworks systems had 64 national ports, 209 municipal ports, and 277 lighthouses. The country's airports system consisted of a total of 59 national airports actually operating and several airways systems.

In 1957 there were in the country a total of 149,933 motor vehicles in the form of trucks, cars and other types of vehicles. The ratio of motor vehicles to roads was 4.6 motor vehicles per kilometer of road as compared to 2.3 before the war. Our inter-island shipping fleet was mainly made up of 142 vessels with an aggregate tonnage of 98,000 gross tons while the overseas shipping fleet consisted of 11 vessels under Philippine registry with a total tonnage of more than 55,500 gross tons, carrying approximately 3 per cent of the country's total foreign trade. The air transportation system was equipped with 32 crafts of different types, Viscounts to helicopters, serving the country's major population centers. With the rehabilitation of the MRR Co. the railroad is now operating on 964 kilometers of tracks with 2,400 units of rolling stocks of various type.

Private telephones in service in 1957 numbered 60,711 units located in 9 leading cities and towns. The government telecommunication system has a network covering 18 chartered cities. Radio telephone and telegraph lines give service to 900 of the 1,300 mu-

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[1/] Includes 16,060 km. of municipal roads. BPH Annual Report, FY 1958.

nicipalities of the country.

Problems. Because of the inadequacy of the road network, production in some secluded agricultural areas is often limited to the immediate needs of the local population. When production in these areas reach levels beyond local needs, the excess is either sold at very low prices or are fed to animals.

Port and harbor facilities are also inadequate to cope with the increased volume of products and commodities handled by them. Areas around ports and harbors are hazardous to shipping due to silting. In some places, products from inland areas cannot be transported to centers of distribution and consumption due to lack of ports and harbors.

Each year the country pays an average of $61 million for the use of foreign vessels in the transportation of goods that enter its foreign trade. Until recently, there was a serious shortage of bottoms to transport our principal export products. Freight costs of both our exports and imports have been very high due to conference rates.

While the coastwise tonnage is adequate, most of the ships are old and in need of replacement. This accounts for the expensive operating costs and the high cargo and passenger rates.

There is need for more motor vehicles such as trucks and buses. The railway system needs further modernization and extension to other areas, such as Cagayan Valley.

The demand for private telephone service in Manila and other principal towns and cities has increased so fast that there is now a backlog of 20,000 units. Moreover, the yearly increase in the demand for additional telephone connections average 7,400 units. Only 18 of the chartered cities are served by the government telecommunication system. The government radio telephone and telegraph system operates under uneconomical conditions because they are composed of old army surplus equipment.

Objectives. The transportation and communications program, balanced in terms of land, sea and air facilities, will have the following objectives:

1. To facilitate the movement of farm products from the areas of production to the markets;

2. To increase the number of motor vehicles especially trucks and trailers in order to facilitate the movement of goods and services that are expected to follow the development of agriculture, industry, trade and commerce and social services;

3. To gradually replace and rehabilitate the present bottoms in inter-island shipping with more efficient and economical units;

4. To expand the railroad lines to areas where such expansion is economically feasible and to modernize the present system to make it cheaper and more efficient to operate; and

5. To expand the existing system of communications as will be demanded by commerce and industry and a rising level of living.

The achievement of the above objectives require the following investment outlay:

OUTLAYS FOR TRANSPORTATION SYSTEM AND COMMUNICATIONS PROGRAM

FY 1960 - 1962

(In Million Pesos)

Project	*FY* 1960	*FY* 1961	*FY* 1962	*TOTAL*
Transportation System:	147.2	158.5	164.2	469.9
A. Facilities a/	62.6	64.2	64.2	191.0
1. Highways	46.9	48.7	45.0	140.6
Development Roads	9.0	9.0	9.0	27.0
Feeder roads, Sec. & Narra Rds.	10.0	10.0	10.0	30.0
Main routes & others	21.3	23.1	25.0	69.4
Equipment Shop	6.6	6.6	1.0	14.2
2. Portworks	9.7	8.5	11.2	29.4
National Ports	3.5	5.0	6.0	14.5
Municipal Ports	2.5	3.0	3.5	9.0
Shore protection	3.7	0.5	1.7	5.9
3. Airports & Airways	6.0	7.0	8.0	21.0
Airports	5.0	5.5	6.0	16.5
Airways	1.0	1.5	2.0	4.5
B. Transportation Units	84.6	94.3	100.0	278.9
1. Motor	30.0	30.0	30.0	90.0
2. Shipping	37.1	45.9	48.5	131.5 b/
a. Coastwise	4.5	5.0	5.0	14.5
b. Overseas	32.6	40.9	43.5	117.0
3. Air	4.1	6.7	6.5	17.3
4. Railways (MRRCo.)	13.4	11.7	15.0	40.1 c/
Communications:	21.7	21.5	19.2	62.4
A. Private Telephone	8.0	8.0	8.0	24.0 d/
B. Government Telephone (Telegraph & Radio)	13.7	13.5	11.2	38.4 c/
Total	168.9	180.0	183.4	532.3

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a/ These public works are included for an integrated treatment of the transportation system.

b/ Investment is wholly from reparations ($51.4 million) and Ex-Imp. Bank, Japan ($10.8 million).

c/ Includes the dollar component of $7.5 million for MRRCo. from reparations; $7.8 million for gov't. telecommunications on a deferred payment plan with reparations as guarantee.

d/ Dollar component of $6.0 million to come from Central Bank. Other foreign loans that may be obtained are not included.

Recommendations. To remedy the various problems in the field of transportation system and communications, the following measures are recommended:

1. To partially take care of the depreciation of existing motor vehicles and the replacement of trucks and buses that are no longer serviceable, foreign exchange should be made available for the importation of spare parts and trucks preferably the diesel type.

2. To help solve the traffic problem in Manila, jeepneys should be gradually replaced by medium sized buses with definite main routes running from one end of the city to another;

3. To provide for the replacement of obsolete inter-island vessels to the extent of 26,800 gross tons during the three-year period. Simultaneously, amendment of the Coastwise Shipping Act, RA 1909 is recommended by reducing the 20 per cent down payment on the acquisition of new boats to 10 per cent of the cost upon execution of the contract with NASSCO for the construction of such vessels;

4. In the implementation of the Reparations Act, RA 1789, shipping construction materials and equipment should be made available to NASSCO for the construction of coastwise vessels and watercrafts, provided that the construction cost of such vessels shall be on a cost plus basis;

5. To amend Section 5 of RA 1407 otherwise known as the Philippine Overseas Shipping Act of 1955 by increasing shipping loans to 90 per cent of the cost of vessels instead of 75 per cent as provided for in said act and to acquire 154,000 GT of overseas fleet;

6. To provide for the financing of the extension of MRRCo. lines to the Cagayan Valley and the modernization of its existing facilities. This will open up for development one of the richest valleys in the country and reduce freight rates from ₱0.24 to ₱0.06 per ton-kilometer. Capital investment of about ₱78.0 million can be recovered within 22 years exclusive of benefits due to the cumulative increase in national income;

7. To construct, among others, 5,000 kilometers of feeder roads, and to improve and complete the construction of 16 national ports and 25 airports;

8. To coordinate the development of the country's transportation system, by the implementation of Reorganization Plan No. 60 creating an Office of Transportation Planning in the Department of Public Works and Communications; and

9. To provide for the program of expansion of the Government Telecommunication System through Reparations, simultaneously with the normal growth of private telephone service.

Chapter 8

TRADE AND COMMERCE DEVELOPMENT PROGRAM

A. Resume

The significance of the trade sector to the national economy is indicated by its contribution in 1957 of ₱1,048 million or 11.9 per cent of the total national income.

Foreign Trade. — The country's most serious problem today is the shortage of foreign exchange due to our recurring foreign trade imbalance. The solution to this problem calls for drastic reforms. With the gradual loss of the United States market, it is imperative that we should carry on aggressive sales drive and trade promotion activities in European, South American and Asian markets.

Since 1945, the Philippine economy has been characterized by a persistent deficit in her balance of trade account, reaching the largest imbalance of ₱676 million in 1949, thus forcing the country to institute exchange and import controls.

Despite the liberalization of the Bell Trade Act under the Laurel-Langely Agreement, the direction of the country's foreign trade tended to change. There is a noticeable shift in its direction from the United States to the Japanese, European and South American markets.

Domestic Trade. — During the last few years, greater Filipino participation in domestic trade has been noted. This has been brought about particularly by the Retail Trade Nationalization Law, the Retailers' Fund Act, the activities of the NAMARCO, the ACCFA and the rural banks.

Problems. 1. The traditional colonial pattern of the country's foreign trade.

2. Inadequate protection to export and infant industries.

3. Lack of organized marketing systems for the smooth geographical movement of goods and services.

4. Alien control of the country's foreign and domestic trade.

Recommendations. The following steps are, therefore, strongly recommended:

1. Positive inducements to producers and exporters.
2. Adoption of a multiple currency reserve system limited to a few stable and de facto convertible foreign currencies.
3. Foreign market surveys and trade promotion activities in principal world markets and judicious trade arrangements with our major co-trading countries.
4. Effective application of the tariff system for the protection of infant industries and the encouragement of new ones.
5. Re-orientation program for commercial attaches and consular officials.
6. Promotion of tourism through wider publicity, improvement of tourists spots, easing of customs regulations and improved hotel facilities.
7. Encouragement of greater Filipino participation in our domestic trade through more liberalized credit facilities and more extensive support and patronage by government agencies.

B. The Program

The Current Situation

Income originating from the trade sector increased by 10 per cent in 1957 compared to 1956. In 1956, however, compared to the previous year, the rate of increase was 10.7 per cent. The slackening of growth in 1957, by 0.7 per cent was accounted for by the corresponding percentage drop in the growth of increase in the other sectors of the economy, which was particularly notable in agriculture, manufacturing, construction and transportation.

The contribution of the trade sector to the national economy amount to ₱1,048 million in 1957. In absolute terms, this meant a rise of ₱95 million over the ₱953 million of the previous year.

Foreign Trade. — Since 1945, Philippine foreign trade has been characterized by a persistent deficit in her balance of trade account. More likely, this deficit may prevail in 1958. While export earnings improved gradually during the period under review, import expenditures moved more rapidly upward outpacing the rate at which export income had been expanding.

The year 1949 exhibited the largest deficit amounting to ₱676 million. In view of the dangers posed by the further deterioration of the country's balance of trade position, Congress enacted the import control law, resulting in the following year to a drastic narrowing down of the unfavorable gap between imports and exports which amounted to only ₱22 million. After 1950, however, the deficit showed erratic movements, tending, by and large, to grow much wider than the 1950 low.

In absolute terms, both exports and imports expanded generally from 1950 to 1957. As ratios of total trade, however, exports exhibited a declining trend while imports moved up at a more rapid rate. This reversed trend accounted for the recurring deficit in the country's balance of trade and the worsening level of the international reserves.

Although imports had been expanding to a tremendous extent, there appears to be one redeeming feature. This is the gradual shift taking place in the composition of imports, constituting more and more imports of capital goods and raw materials and less and less of consumption goods. This shift is particularly notable when viewed in absolute terms.

During the last two or three years, the country's imports tended to expand further despite the fact that substitutes are already being produced in the home market. The country's import pattern follows: manufactured goods classified by materials consisting of textile yarns, fabrics, made-up articles and related products; base metals; paper and manufactures; metal manufactures; non-metallic minerals, etc; machinery and transport equipment; foods such a dairy products, eggs, and honey, cereal and cereal preparations fish and fish preparations, meat and meat preparations, etc.; chemicals; mineral fuels and lubricants; beverages and tobacco, animal and vegetable oils; and other miscellaneous items. The total value of such imports reached[1] ₱1,229.2 million in 1957 against the 1956 record of only ₱1,012.9 million or a rise of 21 per cent. Imports in 1957 even surpassed the previous 1949 high at ₱1,171.8 million or by ₱57.4 million.

Exports earnings also showed a gradually upward movement since 1949. What may be noted, however, was the sudden upward spurt in 1951 compared to the previous year, making a gain of ₱192.8 million or 29.1 per cent. This is particularly attributed to the effects of the Korean War. From the 1951 level of ₱854.9 million export income fell by ₱163.5 million or 19.1 per cent in 1952, gradually recovering and moving upward through the years, reaching ₱902.2

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[1] Table 51, p. 85. C.B. Statistical Bulletin, June, 1958.

million in 1956. From this level, export income in 1957 fell by ₱44.3 million or 4.9 per cent. Although export earnings moved generally upward in absolute terms, they exhibited a reverse downward trend as ratios of total trade.

The composition of the country's export by commodity group maintains the same traditional pattern. Lately, however, wood, bamboo and rattan have improved in the scale of exports due to the increasing demand for plywood and veneer, particularly in the United States markets. Major export earnings, on the other hand, declined in 1957 compared to the previous year with the fall being led by sugar and related products (₱32.0 million) logs and lumber (₱7.5 million), minerals and metals (₱6.1 million), coconut and coconut preparations (₱6.1 million) and fruits and fruit preparations (₱2.2 million). A rather distinct feature of the country's export trade, especially with the United States, is the country's inability to fill some of the quotas agreed upon. In 1957–58, only 2.57 per cent of the quota for cigar was filled and 50.05 per cent for coconut oil; while we practically covered those for scrap and filler tobacco and cordage and could have sold more than the sugar quota, if it were permissible.

Generally, earnings from all major exports declined in 1957 compared to 1956 with the exception of abaca fiber, desiccated coconut, chromite and pineapple. Despite favorable world prices for the major export items, their values declined due to the fall in volumes. In 1957, sugar experienced a 3.5 per cent rise in price and a 20.2 per cent fall in quantity; copra, a 0.8 per cent rise in price and 11.4 per cent fall in quantity.

Since 1953, there has been a serious deterioration in the country's terms of trade. While the net terms of trade stood at 117.5 in 1953, (1955 — 100), it sunk to as low as 98.5 in 1957. The gross barter terms of trade, however, rose from 96.7 to 102.5 during the corresponding years. Between 1956 and 1957, export prices increased by 1.6 per cent but this had been negated by a higher rise in import prices to the extent of 3 per cent.

Apparent shifts are noted in the direction of the country's foreign trade. Trade with the United States, which is the country's principal market, fell substantially in 1957 compared to the 1953 level, tending to move towards the direction of the Japanese, South American and European markets. Although trade with the United States still composes the bulk of Philippine foreign trade (about one-half), trade during recent years with Japan and the Netherlands has been showing noticeable improvements.

Domestic Trade. — The extent of domestic trade activity may be gauged, although in a very limited manner, on the Central Bank data on Gross Sales and/or Receipts of 1,172 leading business establishments. Sales activity expanded in 1957 compared to 1956. Gross sales index (1955 — 100) for all items increased from 110.7 to 120.5 or by 8.9 per cent. Of the sectors covered, the utilities group took the lead increasing from 109 in 1956 to 126.5 in 1957 or by 16.1 per cent. This was followed by construction increasing from 119.5 to 135.5 or 13.4 per cent and consumers gross sales which rose from 111 to 121.8 or by 9.7 per cent. That for transport, storage and communications rose from 114.4 to 122.7 or by 7.3 per cent and services from 120.1 to 132.5 or 10.3 per cent. In mining and quarrying however, the index fell from 117.3 to 105 or by 10.5 per cent.

The expansion in the utilities group was due to the increase in the sales of electricity, gas and steam of more than 18 per cent in 1956 compared to the previous year. In manufacturing, sales activity was led by basic metal industries (67.9 per cent) followed by transport equipment (28.8 per cent), manufactures of machinery (28.3 per cent), wood and cork (26.7 per cent), printing and allied industries (23.3 per cent), rubber products manufactures (17 per cent), tobacco manufactures (16.1 per cent), and the manufactures of other items (ranging from about 4 to 8 per cent). Sales in the manufacturing group, however, declined in wearing apparel (11.5 per cent), furniture and fixtures (8.8 per cent), non-metallic minerals (7.9 per cent) and a few other items.

The above increases in gross sales and/or receipts reflected on the commerce; transport, storage and communications; and the services sectors of the economy.

The sales increase in commerce was largely attributed to real estate recording an increase of 16.1 per cent, wholesale trade 10 per cent, insurance 16.1 per cent, and retail trade 9.8 per cent. Although sales increased in transport (8.4 per cent), a sudden decline in storage and warehousing (75.6 per cent) was registered. An increase in personal services to the extent of 22.1 per cent was also noted.

During the last few years, greater Filipino participation in domestic trade has been noted. This was brought about particularly by the Retail Trade Nationalization Law as well as the Retailer's Fund Act. Later on, however, this was given support by the NAMARCO by making available to Filipino wholesalers and retailers marketable goods, and by the ACCFA and the Rural Banks by extending small loans for the purpose. With regard to trade in agricultural products, the ACCFA, CCE and the FACOMAS have been highly instrumental in improving the marketing set-up.

Since the implementation of the Retailers' Fund Law, 20,921 retailers have applied for loans. Of this number, 15,792 retailers were granted a total loan of ₱22,374,585. The Retailers' Fund has greatly helped the Filipino retailers in their purchases of consumers' goods, especially from importers who are required by law to reserve at least 30 per cent of their total imports of prime commodities for Filipino retailers.

Data compiled by the Bureau of Commerce revealed that out of the 999 bona fide Filipino retailers registered during 1957, 954 retailers took advantage of the 30 per cent reserve portion of imported prime commodities valued at ₱1,536,512.21

Tourism. — Tourism is becoming more and more important to the Philippine economy. Tourist traffic and tourist dollar receipts from 1952 to 1957 are shown in the following table: [1]

Year	*Volume Of Traffic*	*Per Cent Change*	*Receipts from Foreign Tourists*	*Per Cent Change*
1952	10,330		$ 125,324.11	———
1953	11,634	+ 12.6	628,695.20	+ 401.7
1954	14,965	+ 28.6	961,860.93	+ 53.0
1955	16,785	+ 12.2	985,026.16	+ 2.4
1956	20,416	+ 21.6	1,554,421.55	+ 57.5
1957	26,053	+ 27.6	955,053.14	— 38.6

In 1957, tourist traffic increased by more than 27 per cent over the previous year, although receipts suffered a decline by about one-third. The height of tourist expenditures of $1.5 million in 1956 only represents 0.22 per cent of the country's foreign exchange receipts on current account.

Problems and Prospects

The most serious problem which faces the country now is one of foreign exchange the shortage of which sets a limit to the rate of capital formation and economic growth that could possibly take place. The approach to the mitigation of this problem may be conceived of in two ways: one is how to increase the foreign exchange earning capacity of the country by expanding and diversifying export production and trade, and the other is how to reduce or keep foreign exchange expenditures within the foreign exchange earning capacity of the country and at the same time support a reasonable rate of capital formation and economic growth. The real solution to the problem would call for drastic reforms not only in the field of foreign exchange but also in the monetary and fiscal fields.

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[1] Report from the Tourists Bureau.

With respect to foreign trade *per se*, the current problem is the gradual loss of the preferential treatment of the country's exports in the United States market. During the current year, the country's exports goods pay a tariff duty of 5 per cent of the ordinary customs duty up to December 31, 1958; increasing to 10 per cent beginning January 1, 1959 to December 31, 1961; 20 per cent beginning January 1, 1962 to December 31, 1964; 40 per cent beginning January 1, 1965 to December 31, 1967; 60 per cent beginning January 1, 1968 to December 31, 1970; 80 per cent beginning January 1, 1971; 100 per cent beginning January 1, 1974 to July 3, 1974. This gradual loss of preferential treatment would call for an adjustment in the cost structure of exports, the diversification of the country's export production pattern, the development of other world markets, and the improvement of the quality and standard of export products. Considering the competition that many of the country's exports face in the world market, the prospect of improvement in export receipts does not appear bright unless measures are resorted to in reducing production cost and improving quality. On the import side, however, increasing foreign exchange expenditures are noticeable. The pressure of expanding money incomes which induces an increasing demand for consumption imports hinders the extent to which growth could take place.

The shortage of foreign exchange brought about by a recurring excess of import expenditures over export receipts poses the most serious problem to economic development.

As regards domestic trade, marketing problems confront some areas due to the inadequacy of transportation facilities, both land and sea; the lack of farm-to-market roads in out-of-the-way rural areas; the insufficiency of credit facilities to a certain extent; and the need for a better rice and corn buying and selling scheme which is a particular concern of the government. Low cereal prices during harvest season, especially in Mindanao and Central Luzon, cause difficulties in warehousing, transportation, and government buying.

In home industries, the problem lies in the improvement of the quality of cottage crops and their standardization. To a certain extent, marketing also poses a problem in increasing production.

The Trade and Commerce Plan

The trade problems given above serve as the framework in formulating the trade and commerce plan. The plan treats the problems of both foreign and domestic trade and the anticipated improvements in the physical distribution of goods. What should be noted, however, is the delimitation of the legitimate trade sector in the over-all economic plan in view of the fact that problems attendant to trade are already treated and included in other sectoral programs. Transportation, communications, public works, and warehousing measures, for example, are included in the services program; credit and foreign exchange in the finance program; import substitution and displacement schemes in both the agricultural and industrial programs; and the like.

The trade plan, therefore, sets forth in a very limited manner the proposed contribution of the sector to national economic development.

Objectives. The following objectives serve as the framework in the formulation of the trade and commerce program.

1. To provide a better marketing system for the smooth geographical movement of goods and services in general.
2. To promote the expansion and diversification of the country's foreign trade through more effective cost reduction and trade promotion schemes.
3. To afford better protection to infant industries by means of the tariff.
4. To help expand Filipino participation in the country's foreign and domestic trade.

As indicated elsewhere in the plan, measures for the improvement of the marketing system rely largely on the corresponding improvements in transportation, the country's road network and warehousing to a certain extent. These measures are already included in the services program. The achievement, therefore, of the aforestated objectives only considers steps to be taken other than those already included in the other sectors. Largely, the trade and commerce plan is a policy plan.

Recommendations. In order to expand and diversify our markets the following are recommended:

1. To widen the market for the country's exports, re-orientation program for commercial attaches and consular officials should be started. From the standpoint of the economy, these officials should know what exports to sell abroad, their prices in the Philippines, their suppliers, and the like, to be able to promote foreign sales. Similarly, they should also know other foreign suppliers of the same export goods competing with Philippine exports in the same world market

and conduct market surveys as to world demand, prices, cost, quality, etc., to be able to determine what position Philippine exports should take.

The selection of additional commercial attaches and consular officials should be based largely on their qualifications, the larger determinants of which would be economics, international trade, and political science background. For those who are in the service, and for new recruits to the foreign service, a re-orientation and training program is prescribed.

To put into effect the above recommendation, a Committee on Foreign Trade Promotions shall be created to be composed of a representative each from the Department of Foreign Affairs, the Department of Commerce and Industry, the Central Bank and the National Economic Council, the Committee Chairman to be selected by the members themselves. The Committee shall, among others, determine the manner by which re-orientation and training of commercial, attaches and consular officials shall be conducted, draft the manual of instructions, and cause to be prepared statistical and economic literature which will help promote the expansion of foreign trade.

2. To reduce the cost of production and improve the competitive position of major exports in the world market, an export quota retention scheme to the extent of 20 per cent of export receipts is strongly recommended. Retained export quotas should be in the form of foreign exchange certificates of different denominations to be held only within a period of six months. Foreign exchange certificates, which shall be transacted in the free market, shall only finance additional imports of capital goods, raw materials and essential consumption goods.

This is deemed the best incentive for export expansion and diversification.

3. To further widen the market for Philippine exports including sources of Philippine imports, a multiple currency reserve system limited to some stable foreign currencies is recommended. This approach will widen opportunities for trading in currencies other than the dollar and offset the difficulty of conducting trade with the non-dollar bloc.

4. The Department of Commerce and Industry shall initiate and foster the growth of Philippine private organizations in both foreign and domestic trade by providing available governmental technical services and facilities to them.

5. The tariff shall be resorted to as a means of providing protection to infant industries and foster their growth instead of tax

exemption and other subsidy schemes which mean a loss of revenue on the part of the government.

6. To improve the rice and corn buying and trading functions of the NARIC, ₱20 million is provided for. This recommendation is already considered in the agricultural development program.

7. Tourist promotional literature must be supplied to Philippine consular and other offices abroad. The improvement of tourist spots and facilties is also being indicated, priority to be given those areas accessible to Manila.

For this purpose, the sum of ₱1 million shall be appropriated annually for the next two years or a total of ₱4 million for the improvement of other tourist resorts, principally the Manila area, Corregidor, Laguna and Batangas areas, Northern Luzon and the Bicol areas. Priority for the second and third year tourist resort development program shall be given to the reconstruction and restoration of the gates and bastions of Intramuros; the reconstruction of the Manila aquarium and the botanical garden; the opening of the Maculo Falls in Laguna; the provision of rest houses and other tourist facilities in Corregidor; the construction of Mt. Data Lodge in Banaue; the construction of tourist facilities in or near the Hundred Islands in Pangasinan; the provision of tourist facilities in Mt. Bulusan Lake in Sorsogon and other tourist areas accessible to Manila. The construction of the Zoological Garden on Harrison Park, which is being undertaken by the City of Manila and the construction of the Rizal Centennial on the Luneta to include a theater and house of National Museum and the National Library, will also expand tourist attractions in the Manila area.

8. For the promotion and development of cottage industries, the sum of ₱500,000 shall be provided the Home Industries Division, Bureau of Public Schools, in the form of a revolving fund to be used in the outright purchase and sale of quality home industries products. Such products may be sold direct to private traders or consumers by the Home Industries Division or to NAMARCO for resale, either locally or abroad, giving due allowance for a certain rate of mark-up to cover marketing expenses. The Bureau shall exert effort to improve the quality, update designs, and standardize, as much as possible, cottage-craft products which have a ready market.

For the marketing of cottage industries products by the NAMARCO, the sum of ₱1 million shall also be provided in the form of a revolving fund to absorb immediately finished cottage products which can keep up with prescribed standards.

It is anticipated that the marketing assistance being extended to cottage craft producers by both the NAMARCO and the Bureau of Public Schools will be strongly coordinated.

The implementation of the foregoing policy recommendations in the trade plan is believed sufficient to give due support to the anticipated rate of economic development in the overall plan.

Supplementary Recommendations

(1) Explore all possibilities of deferred payment arrangement in the importation of capital goods and indispensable raw materials with highly industrialized countries of the Free World.

(2) Take full advantage of the provisions of United States Public Law 480 in order to minimize the use of scarce foreign exchange in the acquisition of capital goods, raw materials and even essential consumer goods.

(3) Manufacturing firms enjoying tax exemption under R.A No. 901 should be required to channel the distribution of their products up to at least 50 per cent of their actual output through NAMARCO or any organized Filipino distributors, including contractors, to ensure greater and effective participation of Filipinos in our domestic trade, as envisioned in various acts of Congress such as Commonwealth Act No. 565 — "Cooperative Administration office" and Republic Acts Nos. (a) 663—"National Rice and Corn Corporation (NARIC), (b) 821 — "Agricultural Credit Cooperative Financing Administration (ACCFA)", (c) 1180 — "The Nationalization of Retail Trade, (d) 1345 — "National Marketing Corporation", and (e) 2023 — "The Creation of Wholesale Cooperative Associations and Cooperative Banks".

(4) Republic Act 2023 sponsored by the National Economic Council whose purpose is to create the Wholesale Cooperative and the establishment of Cooperative Banks should be implemented at once in order that more non-agricultural cooperatives can be promoted and established.

(5) The functions of the government entities promoting Domestic Trade namely, the Bureau of Commerce, the Cooperative Administration Office (CAO), the National Marketing Corporation (NAMARCO), the Agricultural Credit and Cooperative Financing Administration (ACCFA), the National Rice and Corn Corporation (NARIC), and the

Philippine Coconut Administration (PHILCOA) should be coordinated and synchronized so that overlapping and duplication of functions may be avoided. For the purposes of coordination, a representative of the National Economic Council (NEC) should sit in their respective Board and Staff meetings, as an observer.

Chapter 9

SOCIAL DEVELOPMENT PROGRAM

A. Resume

The purpose of economic development is social welfare. Economic progress only gains meaning as such progress enables the people to lead a fuller and more satisfying life. Where the economic base is inadequate and available resources are limited, it is necessary in the utilization of such resources, to give priority to economic programs without of course sacrificing the minimum standards of life and health.

The objectives of social development are:

1. To provide the necessary cultural adaptations to encourage enterprise, innovation of growth;
2. To increase the level of human efficiency;
3. To effect in the longer run a more reasonable distribution of national wealth and income; and
4. To mitigate whatever adverse effects may result from changing economic and social conditions.

The program of social development assumes that the provision of social services is largely a governmental function and embraces action in the areas of education, health, manpower utilization and labor welfare, social welfare, community development and public management.

In education, the program recommends facilities for the children who will reach school age during the program period; the training and employment of 500 science teachers and the provision of well equipped laboratories for the teaching of science in schools; the establishment of 6 agricultural schools and a Development and Settlement Program for agricultural graduates as well as the improvement of staff and facilities for other vocational fields; the further improvement of university education, the establishment of a graduate program in Engineering and the encouragement of endowments for research and scientific investigation; the up-grading of private education, and the intensification of adult education.

The health program includes expansion of facilities such as hospitals, rural health units, potable water supply, nutrition, tuberculosis control and medical research to take care of the needs of the growing population. Also provided is a health education program particularly in environmental sanitation and public health. The collection, analysis and reporting of vital statistics considered important in the assessment of health conditions is given some emphasis.

Labor welfare and manpower program will be invigorized with the establishment of regional labor market information offices and a national industrial training program in textile financed by the Asian Economic Development Fund, and an Industrial Management Training Program. The labor welfare program includes labor law enforcement and employment offices for "sacadas".

In social welfare, the expansion of the program for the vocational rehabilitation of the physically handicapped, a training program for personnel, a pilot center for social research, a resettlement program for indigent families and low-cost housing are recommended. The Social Welfare Administration is in the process of reorganization to enable it to re-direct its programs toward preventive social services and to maintain leadership in social welfare. Further, some of the current appropriations will need to be diverted to uses which will yield maximum results.

Community development is indorsed in this Program as a means to mobilize and make more effective use of local human and material resources and to channel local initiative and energy towards national goals. The Program recommends the maintenance of the present community development program under the Presidential Assistant on Community Development (PACD) by providing for continuing assistance particularly in materials and equipment needed for community development projects and the acceleration of the research program as a basis for future approach in local community planning.

Since the Three-Year Economic and Social Development Program is essentially a public program, the important recommendations for public management include the safeguarding of the independence of the Bureaus of Civil Service, Customs and Internal Revenue from political interference by fixing through legislation the tenure of office of their heads; prohibition of lobbying by pressure groups and the prohibition of legislators and responsible executive officials from making any representation for the grant of any privileges in favor of private parties; more strict enforcement of laws against the acceptance of gifts as a consideration for official favors; and the integration of all the legal measures designed to prevent graft and corruption and the organization of a machinery that will curtail all forms of dishonesty on the part of public officials and employees and expedite action on all cases of irregularity.

The following new outlays are required to pursue the outlined program:

CONSOLIDATED NEW OUTLAYS FOR SOCIAL DEVELOPMENT 1/
(FY 1960 - 1962)
(In Millions)

	FY 1960	*FY* 1961	*FY* 1962	*TOTAL*
Education	50.70	51.99	48.75	151.44
Health	2.51	2.45	2.60	7.56
Manpower & Labor	0.84	0.42	0.12	1.38
Social Welfare	0.55	0.20	0.20	0.95
Community Development	1.50	0 75	0.75	3.00
Public Administration	0.84	—	—	0.84
TOTALS	₱56.94	₱55.81	₱52.42	₱165.17

B. Education

The quality of the manpower and social climate of the community is largely a function of a country's educational system. The program of public education is designed thus to further enable the educational system to promote the economic development program.

Objectives.

The objectives of the program are as follows:

(1) To raise the level of literacy;

(2) To provide the necessary technical and managerial skills;

(3) To instill habits of thrift and industry;

(4) To promote creative interest in the arts and sciences;

(5) To inculcate moral and spiritual values in the minds of the youth; and

(6) To identify and develop further the best features of Philippine culture.

The achievement of these objectives require the following new outlays:

NEW OUTLAY FOR THE EDUCATION PROGRAM
(FY 1960 - 1962)
(In Millions)

Type of Activity	*FY* 1960	*FY* 1961	*FY* 1962	*TOTAL*
Elementary Education	32.50	35.58	33.80	101.88
Secondary Education	5.10	5.10	3.60	13.80
Vocational Schools	6.80	6.61	6.45	19.86
Home Industries	1.7	—	—	1.7
Higher Education	4.10	4.20	4.40	12.70
Adult Education	.50	.50	.50	1.50
TOTAL	₱50.70	₱51.99	₱48.75	₱151.44

1/ Excludes a total of ₱43 million for three years included in the Public Services Program for the construction of school buildings, and hospitals and sanitaria.

Achievements in Education.

Despite the provision for compulsory elementary education set forth in Republic Act No. 896 (Section 5) which requires that "every child shall remain in school until the completion of an elementary education", the average level of school achievement is only third grade.

At present, the level of literacy in the country is 64 per cent. While this is low compared to Japan, it is high, viewed side by side with that of other Southeast Asian countries. In general all highly industrialized countries are highly literate since literacy seems to provide the basis for the development of industrial skills.

In school year 1958, the 27,000 public elementary schools in the country accommodated about 3.5 million school children, representing 95 per cent of all pupils in elementary schools. The 283 public secondary schools absorbed more than 200 thousand or 37 per cent of total secondary school enrolment. The country's 123 public vocational and technical schools enrolled more than 48,000; and an additional 46,000 were in private vocational schools.

In the field of higher education, public colleges and universities accommodated about 26,000 students while private institutions of higher learning had a total enrolment of more than 200,000 students. The ratio of university enrolment to population was 9:1000, a level second only to the United States. While the Philippines compares favorably with other underdeveloped countries, current educational achievements are deemed inadequate to meet the requirement of a nation undergoing the process of economic development.

Elementary Education. The accommodation of the increasing number of children of school age has been a perennial problem in this country. During academic year 1959 only 3.8 million of the more than 4.1 million children of school age will be accommodated in the public elementary schools. More than .3 million cannot be accommodated due to lack of funds and facilities.

To meet this problem, additional outlays for each year of the program period 1960-1962 will be provided for children of school age. 1/ However, care will be taken that no new classes are created unless the corresponding classrooms are provided for.

The relative inadequacy of textbooks is proposed to be partly remedied by the printing of textbooks. The foreign exchange requirements for printing materials will be provided from the ICA assistance program. It is estimated that ₱2 million will be needed in 1960

/1 Under the Public Services Program, 2,200 classrooms will be constructed annually during the 3-year period. This will not completely meet the need but the backlog can be bridged with temporary buildings constructed by local efforts and with an increasing trend of enrolment in private schools.

to cover the local cost in the printing of these textbooks for which the ICA program has authorized $2 million in FY 1959.

Vocational Education. The task of vocational education is to provide basic manipulative skills for productive activities. Inadequacy of school facilities and equipment and low quality faculty pose serious handicaps to the country's vocational education program.

To solve these problems, the improvement of existing vocational schools through the acquisition of equipment, tools and other facilities for practice training and the upgrading of teaching staff are recommended.

For the rehabilitation of vocational agricultural and trade schools the amount of ₱700,000 is planned for FY 1960 under the NEC-ICA program. An additional amount of ₱230,000 is provided for the same year for the training of vocational teachers under the Stanford Contract.

Secondary Education. Secondary education bridges the gap between basic and higher education. The country's secondary schools, of which 283 are government owned, are the major sources of semiskilled workers. At present, these schools are seriously handicapped by unstable financing, inadequate building facilities and sub-standard equipment, teaching aids and staff.

The provision of adequate physical facilities and the upgrading of the teaching staff of these schools would achieve two purposes; one is to adequately equip the youth with skills to supply the needs of economic development and the other is the provision of the basic educational foundation necessary for the pursuit of higher learning.

Adult Education. Immediate results in the development of skills are an important aspect of adult education. The Agricultural Extension program provides basic skills for agricultural production while the adult education program of the Department of Education stresses literacy, economic improvement, health and home life, cultural improvement, and training for rural citizenship and leadership. Existing facilities for adult education, however, are far from being adequate to make the program effective in the local communities. Additional funds for the expansion of the facilities and the upgrading of standards of instruction could revitalize this field of education. In this connection, the amount of ₱50,000 is alloted under NEC-ICA program to improve facilities for community education.

Home Industries. The levels of underemployment and unemployment could partly be reduced with the development of home industries. Providing training on specific lines of home industries to adult members of families who are either under or unemployed will enable them to undertake some gainful jobs at home, and help improve living conditions by increasing their income. At the same time, it will involve the utilization of local raw materials, which are available at cheap prices, or which can be utilized freely. In the development of home industries there will be needed initially the hiring of 300 teacher technicians (craftsmen) who will be assigned to different regions to provide the necessary skills. This will involve, at the rate of ₱2400 per annum per teacher, the sum of ₱720,000. The training plan also envisages the hiring of foreign experts and the training of Filipino technicians abroad under the UN, Colombo Plan and ICA Technical Assistance Programs.

It is also envisioned to provide the amount of ₱480,000 for the maintenance and equipment of the Central Craftsman Building, to adequately serve the training purposes of the expanded program.

A systematic and effective marketing of the home-made crafts is an essential phase of the promotion and development of home industries. For this purpose, a revolving fund of ₱500,000 is proposed to be established.

HOME INDUSTRIES
Financial Outlay in Millions

	1960	1961	1962	Total
Hiring of 300 Teacher Craftsmen	₱0.72	——	——	₱ 0.72
Expansion, Maintenance & Equipment of Central Craftsman Bldg.	0.48	——	——	0.48
Revolving Fund	.50	——	——	50
T O T A L	₱1.7 M			₱1.7 M

Higher Education. The training of engineers, executives, scientists, teachers and public administrators is essential to the successful implementation of the economic development program.

The University of the Philippines, a public institution, presently provides the leadership in this field of education. The Central Luzon Agricultural College, the Philippine Normal College, the Philippine School of Arts and Trades, the Philippine College of Commerce, the Mindanao Agricultural College and the Mindanao Institute of Technology are public educational institutions that specialize in their respective fields.

Every year qualified young men and women seeking higher education are refused admission to these schools, particularly the University of the Philippines, for lack of facilities. To enable these public institutions to maintain their leadership and to make available to the deserving the opportunities for higher learning will require the expansion of the facilities and the upgrading of the faculties of these institutions.

In this connection, three projects of the University of the Philippines are finance under the NEC-ICA aid program, as follows:

Rehabilitation of the Colleges of Engineering, Business Administration and Education	₱250,000.00
UP College of Forestry-Cornell Contract	450,000.00
UP College of Agriculture & Central Experiment Station	160,000.00

Under another such arrangement, the Central Luzon Agricultural College, the Mindanao Agricultural College, Baybay Agricultural School and the Philippine School of Arts and Trades, Cebu Trade School and the Iloilo School of Arts and Trades are likewise upgraded.

Private Education. The main source of the skilled manpower of the country is the private universities and colleges which handle 96 per cent of the enrolment in higher education. Most of these schools, however, are still confronted with such problems as overcrowding in classrooms, inadequate sites, laboratories, textbooks and, to some extent, sub-standard teaching staffs. These problems limit them from making the maximum possible contribution to the economic and social development of the country in view of the generally poor quality of graduates produced.

Specific Recommendations.

a. *For Elementary Education*

(1) Construction of 2,200 classrooms annually to accommodate children of school age during the 3-year period.

(2) The printing of Grades I and II Primers (readers) and the purchase of intermediate books worth ₱15 million.

(3) Completing the laboratory equipment of the 8 public normal training schools and sending abroad for training teacher technicians and educational researchers.

b. *For Secondary Education*

(1) Approval of a bill to stabilize the financing of secondary schools.

(2) Completing the equipment of science laboratories of all the schools and providing for the employment and training of at least 500 science teachers and guidance counselors.

(3) Providing for the needed equipment of vocational courses under the 2-2 Plan.

c. *For Vocational Education*

(Agriculture)

(1) Establishment of at least 6 agricultural schools fully equipped and improving the facilities of existing schools.

(2) Transfer of all initial appropriation for new agricultural schools already approved by Congress to other existing agricultural schools whose municipal or provincial support has been withdrawn.

(3) Approval of a Development and Settlement Program. This is to maintain agricultural schools in some public agricultural areas until the sites are developed and are ready to be apportioned among agricultural graduates.

(Fishery)

(1) Providing the schools with modern equipment for preservation of fish.

(2) Sending of trainees abroad for specialization in fish preservation, processing, and culture.

(Trade)

(1) Improving and expanding the facilities and equipment of existing trade schools so as to meet proper industrial needs.

(2) Sending teachers abroad for training in needed specialized industrial skills.

(Home Industries)

(1) Providing for the training of at least 300 teacher-technicians yearly for the standardization of marketable crafts produced.

d. *For Higher Education*

(1) Improving and expanding the research facilities and the research competence of the faculty of the University of the Philippines.

(2) Improvement of salary scales on the basis recommended by the Hanna Survey report.

(3) Approval of the Graduate Program of the College of Engineering in several fields of engineering.

(4) Further training abroad of faculty members especially those engaged in the fields of science and technology.

e. *For Adult Education*

(1) Increasing the net outlay for adult education.

f. *For Private Education*

(1) More rigid enforcement of the standard sizes prescribed for different classes.

(2) A closer supervision of alien schools particularly the Chinese schools.

(3) Inclusion of more indigenous teaching materials in Catholic schools curricula.

(4) Establishment of a scientific research center in all private universities.

g. *Recommendation on Endowments*

Encouragement of the practice on the part of private individuals and corporations to make donations, grants or endowments in cash or in kind, to improve facilities and/or scientific researches and investigations in favor of public or private educational institutions and by amending the income tax law making such donations, grants or endowments fully deductible from the income of such donors, and exempting the donees from gift taxes.

CONSOLIDATED OUTLAY FOR EDUCATION
(*In Million Pesos*) 1/

	Authorized FY 1959	Add'l Over 1959	1960	Add'l Over 1960	1961	Add'l Over 1961	Add'l Total
U.P.	10.65	4.10	14.75	4.20	18.95	4.40	12.70
BPS 3/	₱222.63 2/	46.60	269.23	47.79	317.02	44.35	138.74
TOTAL		50.70	283.98	51.99	335.97	48.75	151.44

C. Health

Health is essential to growth and welfare. Even when people have an adequate physical environment, progress is possible only if they have the health with which to effect and enjoy material gains.

Poor health presents formidable roadblocks to economic and social progress. The development program for public health is designed to gradually overcome these roadblocks. Generally, the activities are directed towards prevention, control and cure of contagious and infectious diseases; intensification of health education; improvement of nutrition and environmental sanitation; providing efficient public health personnel; and promotion of medical and public health research.

1/ Dollars converted into pesos.
2/ Does not include the appropriation for the Dept. of Education Office.
3/ Includes Elementary, Secondary, Vocational, Higher, Adult Education, and Home Industries.

Objectives.

Thus, the objectives of the health program are the general improvement of the physical and mental capacities of the people through the provision of medical services and the improvement of the sanitary conditions of the country.

More specifically, the objectives are to:

(1) Extend the scope of preventive measures against infectious and communicable diseases;

(2) Intensify control work in intestinal parasites, malaria, schistosomiasis, filariasis, viral diseases, etc.;

(3) Effect further reduction of maternal and infant mortality;

(4) Increase dispensaries and hospital facilities;

(5) Conduct a nationwide campaign on the proper handling of garbage and sanitary disposal of human wastes, and at the same time encourage utilization of sewerage and drainage system especially in urban areas;

(6) Provide sufficient potable water through the development of waterworks systems, artesian wells and springs;

(7) Conduct a more effective campaign against tuberculosis and provide rest villages and/or sanitaria facilities for the tuberculosis patient;

(8) Improve the collection, analysis and reporting of vital statistics; and

(9) Conduct a campaign to prevent nutritional deficiencies.

To carry out the health program the following outlays are provided:

FINANCIAL OUTLAY FOR PUBLIC HEALTH
(In Million Pesos)

Subject	Authorized FY 1959	Add'l	FY 1960	Add'l	FY 1961	Add'l	FY 1962	Total Net 3/ Add'l
Malaria & Filariasis	2.99	0.24	3.23	—	—	—	—	0.24
Schistosomiasis	0.26	0.09	0.35	0.07	0.42	0.09	0.51	0.25
Rural Health Units	15.37	0.60	15.97	0.60	16.57	0.60	17.17	1.80
T.B. Control	1.47	0.40	1.87	—	1.87	0.30	2.17	0.70
Hospitals	32.54	0.46 2/ (2.00) 1/	33.00	0.92 2/ (3.00) 1/	33.92	1.38 2/ (3.00) 1/	35.30	2.76 2/ (8.00) 1/
Research Laboratory	1.8	0.30	2.1	0.60	2.70	—	2.70	0.90
Environmental Sanitation	0.37	0.23	0.60	0.26	0.86	0.23	1.09	0.92
Disease Intelligence Center	0.01	0.19	0.20	—	0.20	—	0.20	0.19
TOTAL	₱54.81	2.51	57.32	2.45	59.77	2.60	62.37	7.56

1/ Amount for construction, (See Public Services) which provides 1,000 new beds in 3 years and will meet 50% of need to maintain a 1:5000 ratio

2/ Amount for operation and maintenance of new beds provided.

3/ Excludes outlay for construction included in Public Service Program totalling ₱8 M in 3 years.

Achievements in Health.

Thirty years ago, 19 persons in every 1,000 of the population died. In 1957, this rate was reduced to 10 per 1,000. The number of mothers who died from delivery has been reduced by one-half during the same period. Infant mortality was reduced from 153 for every 1,000 live births in 1927 to only 93 in 1957.

No cases of cholera, smallpox or plague have been reported in recent years. Communicable diseases like infectious diarrhea, dysentery, typhoid fever, malaria, filariasis, schistosomiasis and viral diseases like H-fever and encephalitis are being met with proper preventive and control measures as well as through research.

The achievement of the goals of the health program will depend upon the implementation of measures indicated below.

Recommendations.

1. Provision of more adequate laboratory facilities and trained scientific technicians necessary for the intensification of basic researches and production of sera and vaccines such as cholera-dysentery-typhoid vaccines, BCG, flu, rabies, tuberculin, etc., to support the expansion of preventive medical services.

2. A more intensive campaign against intestinal parasites by pertinent government offices with the assistance of public schools.

3. Assignment of more nurses and midwives to the Rural Health Units and Puericulture Centers to improve maternal and child care.

4. Improvement of medical care and expansion of existing hospitals through the implementation of RA 1939 that fixes the proportionate share of the national, provincial, city and municipal governments to the funds for the operation and maintenance of free beds in government hospitals and the provision of additional beds and the establishment of wards or pavilions.

5. Education in the proper handling of garbage and the sanitary disposal of human wastes should likewise be intensified. Sewerage, drainage systems and comfort stations should be constructed in big centers of population.

6. Provision of potable and safe water supply through the drilling of artesian wells, development of springs and construction of waterworks systems.

7. Expansion of the mobile and static chest health units to provide a wider coverage for detection and case treatment.

8. Improvement of the collection, analysis, and timely reporting of vital statistics to provide the information necessary in the proper control of infectious diseases and the formulation of policies and future programs on public health.

9. Provision of facilities and technical personnel for nutrition survey and for the intensification of nutrition education.

D. Manpower And Labor Welfare

One of the major resources of the country is its manpower. Upon its development and proper utilization depend to a great extent the development of the country.

Objectives of Manpower Program.

To promote the maximum development and utilization of manpower resources, the manpower program aims to:

(1) Increase job opportunities sufficient to absorb at least new entrants into the labor force and relieve underemployment to some degree;

(2) Develop skills to meet the demand of a growing economy; and

(3) Develop a system of making regularly available labor market information.

Objectives of Labor Welfare Program.

The labor welfare program is designed to:

(1) Improve labor-mangement relations conducive to industrial peace;

(2) Provide effective enforcement and implementation of existing labor legislations; and

(3) Promote the welfare of migratory workers in agriculture.

The achievement of the above objectives requires the following outlays:

FINANCIAL OUTLAY FOR MANPOWER
(In Million Pesos)

	Authorized FY 1959	Add'l	FY 1960	Add'l	FY 1961	Add'l	FY 1962	Total Net Add'l
Ten Regional Labor Market Information Offices	xxx[1/]	0.30	0.30	—	0.30	—	0.30	0.30
Vocational Industrial Tr. in Textile ...	xxx[1/]	0.06	0.06	—	0.06	—	0.06	0.06
IDC Mgt. Training ..	0.177	0.03	0.21	0.03	0.24	0.03	0.27	0.09
				Sub-Total	....			0.45

[1/] New

FINANCIAL OUTLAY FOR LABOR WELFARE
(In Million Pesos)

	Authorized FY 1959	Add'l	FY 1960	Add'l	FY 1961	Add'l	FY 1962	Total Net Add'l
Department of Labor (Field Services)	0.355	0.09	0.43	0.09	0.52	0.09	0.61	0.27
Employment Offices Iloilo & Bacolod ..	xxx[1]	0.16	0.16	—	0.16	—	0.16	0.16
Revolving fund for Sacadas		0.20	0.20	0.30	0.50	—	0.50	0.50
				Sub-Total				0.93
				Grand-Total				1.38

The Current Situation.

Surveys conducted by the Philippine Statistical Survey of Households in 1956-1957 show that of a labor force of 8.8 million 700,000 were unemployed. Approximately 800,000 to 1 million of the employed population were underemployed.

The labor force increases by approximately 270,000 persons annually. To prevent a further rise in the present unemployment level of 8 per cent of the labor force, 800,000 new jobs have to be created during the three-year program period.

Training of future entrants into the labor force is presently provided through vocational agricultural and industrial trade schools, an apprenticeship program for those already in the labor force, and a training program for managerial and supervisory personnel through the Industrial Development Center.

The program provides for the development of labor market information necessary to determine the nature, extent, and direction of measures for manpower development and utilization.

Collective bargaining, to succeed as an instrument in the promotion of industrial peace, has to be acceptable to both management and labor. At present the bulk of the efforts of union, management and government is directly towards establishing collective bargaining instead of the substantive issue of the agreement. Union recognition has always been the principal issue. It is only lately that a shift to the issue of wages, fringe benefits, improvement of shop conditions and policies is being noticed.

Our laws regulating working conditions are considered adequate although they were developed piece-meal over a period of time. Only effective enforcement and implementation is required. The codification, however, of all labor laws to make them simpler and easier to understand and interpret is necessary.

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[1] New

Recommendations.

In order to achieve the objectives of the manpower and labor welfare program, the following measures are prescribed:

(1) A coordinated and effective program to develop home industries to help reduce underemployment prevalent among the rural populations.[1/]

(2) A program of vocational industrial training for development of skills in the textile and other industries.

(3) Assistance for the organization and development of a national apprenticeship program.

(4) Expansion of the program of the Industrial Development Center to help management of private industry undertake training programs for managerial and supervisory personnel.

(5) The establishment of 10 Regional Labor Market Information Offices and expansion of the staff and facilities of the present Labor Statistics Division of the Department of Labor.

(6) Management groups should be encouraged, through the Industrial Development Center, to apply modern management techniques especially in the field of human relations. Union leadership, on the other hand, should be improved through an extensive and intensive labor education program. The periodic holding of Labor-Management Congresses, national or regional, should be encouraged.

(7) The Department of Labor should be provided with more funds to enable it to expand its field services for labor law enforcement.

(8) Codification of existing labor laws.

(9) The eventual abolition of the "sacada" system, the "cabo" system and similar practices.

(10) Adoption of the recommendations of the Special Committee appointed by the Secretary of Labor in 1956 created to survey employment conditions in the sugar industry.

E. Social Welfare

Social welfare is a basic function of society. It involves on the one side, services and other types of assistance extended to the less fortunate members of society and on the other, the prevention of the occurrence of social problems. The ultimate objective of social welfare is the promotion of the general well-being of the nation.

1/ The educational phase is treated under the Education program, the Marketing phase under the Trade and Commerce Program and the Production phase in the Manufacturing Program.

Required Outlays.

To achieve this objective, the social welfare program requires the following outlay:

ADDITIONAL OUTLAYS FOR SOCIAL WELFARE
(FY 1960 - 1962)
(*In Million Pesos*)

Project	*FY* 1960	*FY* 1961	*FY* 1962	*TOTAL*
Pilot Center	.10	.05	.05	.20
Training of Personnel	.05	.05	.05	.15
Four (4) Rehabilitation Centers	.30	.10	.10	.50
Administration & Supervision	.10	—	—	.10
TOTAL	.55	.20	.20	.95

The present program of social welfare in the Philippines is directed mainly to the care of the destitute and the handicapped. Very little attention is given to preventive measures. The public program of social welfare embraces public assistance in the form of relief and aid to the indigents, victims of disasters, orphans and widows; services and protective care to neglected, handicapped and destitute children; and rehabilitative services of the disabled.

Recommendations.

To solve the more vital problems in the field of social welfare the following measures are recommended:

(1) Expansion of the program of rehabilitation through the establishment of four additional vocational rehabilitation centers, one in the Visayas, one in Mindanao and two in Luzon;

(2) Revitalization of the Social Welfare Administration to enable it to implement more effectively the social welfare program;

(3) Training of social welfare personnel both in the pre-service and in-service levels;

(4) Development of preventive social services:

(5) Establishment and maintenance of a social research center to assess social problems, needs and resources and to evaluate the efficacy of social welfare projects;

(6) The resettlement of indigent families which is now carried on by the National Resettlement and Rehabilitation Administration should be expanded and be given every encouragement and support; and

(7) The low-cost housing program of the People's Homesite and Housing Corporation should be expanded to accommodate more adequately the housing needs of low-salaried public employees and other low income wage-earners.

F. Community Development

Economic and social development may have to proceed, to some extent on the basis of community self-help with the government providing a minimum of assistance.

Objectives.

Some of the more important objectives of this community development program are:

(1) To stimulate the participation of citizens in local developments;

(2) To improve further the coordination and integration of the activities of all the departments and offices of the government engaged in community development in order to increase their effectiveness and to achieve maximum benefits;

(3) To assist local authorities in the identification and formulation of development programs and in the mobilization of human and material resources with which to implement approved programs.

Achievements.

The organizational and structural bases for community development have been established. Field personnel given training as of December, 1958, are as follows: 968 Community Development Workers, 138 Home Demonstrators and 98 Agriculturists.

At the national level, the Presidential Assistant on Community Development (PACD) is assisted by an Inter-Departmental Committee and a Committee on Program Implementation. The latter is composed of the heads of five (5) bureaus and agencies receiving direct financial support from the PACD.

There is now coordination of activities of various agencies towards the same goal — the improvement and enrichment of rural life. With provincial governors and municipal mayors leading the movement in their respective provinces and localities, aided by prominent citizens and advised by local community development officers and other technicians, the movement is now gathering force and vitality.

Financial Outlay.

The present effective budget of the Community Development Projects is ₱11.4 million, ₱7.4 million of which is derived from the proceeds of Public Law No. 402 of the United States and ₱4 million from appropriation by the Philippine Government.

The proposed financial outlay for the program period is as follows:

	1959	Add'l	1960	Add'l	1961	Add'l	1962
Effective Budget	11.4	1.5	12.9	.75	13.65	.75	14.40

The total additional outlay for the 3-year program period is ₱3 million.

Recommendations.

In view of the limited funds available for this project, it is recommended that:

1. The social process goal which is the development of citizen competence through participation rather than the achievement goal which is the mere increase of physical facilities in the community development program be emphasized;

2. Studies on approaches, techniques and organization of community development for the purpose of assembling basic materials to further the effectiveness of the program be continued; and

3. Community development efforts be geared to national programs and national programs be made responsive to local aspirations.

G. Public Administration

Any deliberate program of economic and social development in an underdeveloped country will invariably call for improvements in the existing public management system in terms of organization, administrative attitudes and skills and provisions for assuring the maintenance of honesty in the public service. Development connotes greater efficiency and if the government must be the effective tool that it should be to guide, facilitate and otherwise assist private enterprise, it must have systems that will make for "doing things" with dispatch, and a corps of public employees who are skilled and understanding and progressive in attitudes.

It has been aptly said that honesty in government is as important a factor for economic growth as tangible capital. Since integrity in public office is an essential requisite to the success of any development program, the provision for ensuring its observance becomes one of the first tasks of the development effort.

Objectives.

The public administration program is geared, therefore, to achieving the following objectives:

(1) To raise the level of efficiency in the public service;

(2) To develop a pool of trained prospective public administra-

tors recruited through competitive examinations;

(3) To revitalize the merit system;

(4) To provide for the administrative requirements of economic and social development;

(5) To develop initiative, leadership and administrative efficiency among personnel of local governments; and

(6) To institute a system for ensuring honesty in the public service.

To achieve the foregoing objectives the program will require the following outlays:

OUTLAYS FOR THE PUBLIC ADMINISTRATION PROGRAM
(FY 1960 - 1962)
(In Million Pesos)

Project	*FY* 1960	*FY* 1961	*FY* 1962	*TOTAL*
Bureau of Civil Service	.25	—	—	.25
Local Government Project, U.P.	.10	—	—	.10
Executive Staff Academy, U.P.	.10	—	—	.10
Program for Junior Executives	.09	—	—	.09
Research in Public Administration ...	.10	—	—	.10
Training of Management Staffs	.20	—	—	.20
TOTAL	.84	—	—	.84

Achievements.

Reviewing the developments in the field of public administration over the last few years, the following may be cited as outstanding national accomplishments:

(1) Full implementation of 18 (Plan Nos. 1 to 10, 12-14, 20, 30, 46, 47, 54 and 88) and partial implementation of three (Plan Nos. 19, 27 and 60) reorganization plans prepared and recommended for adoption by the Government Survey and Reorganization Commission;

(2) Adoption of performance budgeting by the Budget Commission;

(3) The establishment of an Institute of Public Administration, University of the Philippines, which offers academic instruction for the public service, conducts in-service training and executive development for government official, carries on basic and applied research to determine areas for improvement in the performance of the public service and provides consultation and technical services to government agencies needing assistance in their respective programs;

(4) The establishment of a Management Service in the Budget Commission which carries on a continuing program of management improvement in the government and conducts training for management analysts for particular agencies;

(5) The training abroad of 197 technical personnel in public administration under NEC-ICA sponsorship and the graduation by the Institute of Public Administration of 245 training officers now distributed in different agencies of the government and 98 degree holders in public administration practically all of whom are now employed in the public service; and

(6) The growing awareness on the part of government leaders, the general public and the Press of the crucial role that public administration plays in economic and social development.

Problem.

Among the pressing problems in the public service today may be mentioned the following:

(1) The apparent abandonment of the merit principle in favor of the spoils system in the public service;

(2) The inability of local governments to participate effectively in the economic and social development efforts;

(3) The general lack of high level managerial and executive skill in the government service;

(4) The absence of a comprehensive and continuing study of the adequacy of the government system to implement economic and social development programs;

(5) The need for more adequate number of personnel trained in public administrative knowledge and skills at middle and lower management levels in the public service;

(6) The need for readjustments and refinements in performance budgeting as adequate measures of the performance of government agencies in implementing economic and social development plans and programs; and

(7) The inadequacy of preventive measures against the commission of graft and corruption or any form of dishonesty in the public service.

Recommendations.

To implement the public administration program, the following measures are recommended:

(1) To safeguard the independence of the Bureau of Civil Service, and to make the Bureau of Customs and the Bureau of Internal Revenue independent offices, legislation should be enacted fixing the tenure of office of their respective heads who shall be removable from office only through impeachment;

(2) Enactment of appropriate legislation regarding lobbying in the Congress by pressure groups and of legislation prohibiting members of Congress and responsible officials of the executive department from making representations before offices or agencies of the Government having to do with the grant of privileges, franchises or other benefits in favor of private individuals, corporations and other organized groups;

(3) Strict enforcement of penal laws and administrative orders on the giving and acceptance of gifts by public officers;

(4) Implementation of the remaining approved reorganization plans of the Government Survey and Reorganization Commission which remain unimplemented, thru executive action or legislation which ever is appropriate;

(5) The launching of a local government program to identify training needs and to study the overall conditions of local governments in order to enable them to participate actively in economic and social development;

(6) The establishment of an Executive Staff Academy to conduct and hold seminars and other meetings for managers and executives of the government;

(7) Expansion of the academic program of the Institute of Public Administration through grant of scholarships to qualified young men and women in the universities and government agencies;

(8) Revision of the Civil Service Law to readjust personnel processes and functions in accordance with the needs of the general plan for economic and social development;

(9) Intensification of training programs for management analysts on a continuing basis by the Management Service of the Budget Commission, giving top priority to agencies directly administering economic and social development programs;

(10) Elimination of the many undesirable features of implementation of the wage and position classification system and the transfer of the functions of the Wage and Position Classification Office to the Bureau of Civil Service; and

(11) Integration of all the legal measures designed to prevent graft and corruption and the organization of a machinery that will insure the curtailment of all forms of dishonesty and expedite action on all cases of irregularity. The spirit behind Administrative Order No. 1, Series 1954, and other measures that seek to prevent public officials and employees from enriching themselves in office should

be implemented by a closer check on the changes in wealth and manner of living of government personnel charged with the power to grant privileges to private citizens by virtue of their decisions. Appropriate penal action for inexplicable wealth and exceptionally luxurious living should also be provided.

The Congress of the Philippines appropriates every year funds for the different offices of the government charged with the promotion of social development. Since neither the size of the population to be served nor the nature of the needs to be met can be static, annual appropriations must reflect changes. The additional financial requirements of the social development program is considered adequate at least to maintain acceptable standards of life and health. If economic progress is to proceed at the desired pace and if it is to be orderly and self-reenforcing, the social requisites of such growth must be provided.

Chapter 10

FOREIGN AID AND TECHNICAL ASSISTANCE PROGRAM

This program embraces the assistance extended the Philippines under the International Cooperation Administration, U.S. Public Law 480, the technical assistance under the various organizations of the United Nations, the Colombo Plan program, and the assistance from U.S. volunteer relief agencies.

A. Status of the U.S. Aid Program in the Philippines

Since the inception of the program in the later part of Fiscal Year 1951 to June 30, 1958, a total of $192.61 million of assistance consisting of $172.61 million of grants and $20 million of loans has been authorized. The grant of $172.61 million was used for the procurement of $148.12 million worth of commodities and $24.49 million for payment of technical assistance. The loan portion was divided into $3.3 million for government projects and $16.7 million for private industries.

The distribution of the assistance of $192.61 million by project category is as follows:

Agriculture	$39.5 (M)	Education	$10.0 (M)
Industry	40.0 "	Com. Development	8.6 "
Transportation	35.9 "	Public Administration	7.4 "
Military Construction	28.9 "	Labor	2.1 "
Health	19.6 "	Miscellaneous	0.6 "

The financial contribution of the Philippine Government to the program amounted to ₱321.39 million consisting of ₱184.92 million in counterpart funds and ₱136.47 million in general funds.

By project category, the total Philippine contribution is divided as follows:

Agriculture	₱97.43 (M)	Public Administration	₱38.25 (M)
Industry	25.52 "	Technical Assistance:	
Transportation	83.54 "	Type A	13.02 "
Health	25.27 "	Type B	4.66 "
Education	23.92 "	5% Administration Cost	9.79 "

Altogether, 114 projects have been developed under the joint program of which 28 are in agriculture; 12 in industries and mining; 12 in transportation and public works; 12 in public health;

19 in education; 28 in public administration and labor; and 3 in community development and social welfare and housing.

Procurement of U.S. Surplus Agricultural Commodities Under Section 402 of the U.S. Mutual Security Act. Since the start of the assistance under the program, $54.04 million worth of agricultural commodities, mostly raw cotton and milk, have been made available to the Philippines. The proceeds from the sale locally of these commodities have been utilized as follows:

Community Development	$ 7.00	(M)
Industrial Loans	16.70	"
Military Construction	29.34	"
Total	$53.04	(M)

Under U.S. Public Law 480.—The Philippine and U.S. governments signed in 1957 a commodities agreement covering $10.3 million worth of surplus agricultural commodities such as rice, cotton, skim milk, tallow, etc. For fiscal year 1958, $4.1 million worth of rice was brought in under the program.

The proceeds from the sale of the commodities under the 1957 and 1958 agreements were distributed for the following uses:

For new markets for U.S. agricultural commodities, international education exchange and other expenditures by the U.S. in the Philippines	₱ 6.00	(M)	₱2.50	(M)
For common defense	4.20	"	2.0	"
For assistance to activities and projects authorized by Section 203 of U.S. Information and Education Exchange Act of 1948			1.7	"
For loans to be made by ExImBank to promote economic development	10.40	"	2.0	" 1/
Total	$20.6	(M)	₱8.2	(M)

B. The Assistance from U.S. Volunteer Relief Agencies

The assistance under this program comes in the form of relief goods which are distributed among the indigents and children through local charitable institutions and the schools.

For FY 1958 and FY 1959, the program of the relief agencies, namely: Catholic Relief Services (CRS), Cooperatives for American Remittances to Everywhere, Inc. (CARE), United Nations

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1/ For loans to U.S. and friendly third-country firms in the Philippines.

Children's Fund (UNICEF), and the Seventh Day Adventist Welfare Service (SAWS), involved the distribution of the following commodities: rice, 27.24 million pounds; cheese, 2.45 million pounds; flour, 11.12 million pounds; corn meal, 18.48 million pounds; milk, skim, 64.42 million pounds; and clothing and miscellaneous, 1.50 million pounds.

C. The United Nations Expanded Program of Technical Assistance

This embraces assistance from the United Nations Technical Assistance Administration (UNTAA), the International Labor Organization (ILO), the Food and Agriculture Organization (FAO), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the International Civil Organization (ICO), the World Health Organization (WHO), the International Telecommunications Union (ITU), and the World Meteorological Organization (WMO).

From 1951 to 1958 the total dollar cost of the assistance given the Philippines amounted to $3.08 million. As of 1957 a total of 252 fellowships have been awarded to Filipinos and 35 Filipino experts have been recruited for assignment abroad. For 1958, seven fellowships were awarded in the fields of statistics, economic surveys, forestry development, science and education. Thirty-seven out of the forty-five foreign technical consultants requested are now actually on assignment to various projects.

As a participating country, the Philippines contributed ₱132,000 a year of 1956, 1957 and 1958. For 1958 it has pledged ₱264,000 to Technical Assistance Program and to a new Special Projects Fund to be utilized for increased U.N. and Specialized Agencies assistance to underdeveloped areas.

The 1959 program is estimated to cost the United Nations and Specialized Agencies a total of $409,500 and the local agencies receiving the assistance, $60,200. The program includes 40 experts, 13 fellowships, and $4,712 in equipment with the aid extended in the field of fisheries, kadang-kadang coconut disease research, pasture management, cattle husbandry and dairy production, tanning, pulp and paper production, veneer and plywood production, tobacco, shipbuilding, iron and steel manufacture, cost accounting, salt production, bilharziasis (snail fever) control, mental health, public health nutrition, and other essential projects.

For the subsequent years the requests will be based on the requirements indicated in the 3-year economic and social development program of the National Ecnomic Council.

D. The Colombo Plan

From 1952 to May, 1958, a total of 245 fellowships and scholarships on varied fields have been awarded the Philippines. Thirty-nine fields of study have been made available for 1958. In addition, the services of an orthopedic expert and an anesthesiologist from Australia were availed of in 1958. An offer of £50,000 from New Zealand has been made. Books and laboratory equipment have also been received.

As a contributing country, the Philippines had appropriated a total of ₱318,000 for the program for 3 years since 1957. During FY 1959, eight (8) foreign experts and 9 foreign fellows are supported locally.

In recruiting experts and sending out participants under this program during the subsequent years, the requirement indicated in the 3-year economic and social development program shall also be used as the guide.

E. The ICA-NEC Assistance Program for FY 1960 to FY 1962

The program illustratively planned for FY 1960 to FY 1962, exclusive of military construction and industrial loans, envisions a yearly aid of about $10 million. This will be mostly for continuing projects for which supporting peso funds are to be provided by the Philippine Government. Directly productive projects are proposed to be expanded while those that contribute less to production or are remotely related to it are planned to be terminated or reduced in extent. Projects that qualify for dollar assistance and generate their own peso funds will also be given priority.

Loans for economic development that may be obtained under the program will be utilized in accordance with the guiding principles stated in the 3-year Manufacturing and Mining Plan of the National Economic Council.

F. Problems

Since the levels of assistance coming from the United Nations Organization and its specialized agencies and the Colombo Plan are much too small compared with those coming from the United States, the statement of problems is limited to the latter.

1. Most of the difficulties encountered in the implementation of the ICA-NEC program are operational in nature and are the results of the understandings, agreements and of the administrative procedures developed under the provision of the Mutual Secu-

rity Act and pertinent regulations relative thereto and the Bilateral Agreement. The cooperative efforts, however, of the project agencies, the National Economic Council and the U.S. Operations Mission in Manila have, to a large measure, reduced these inevitable operational shortcomings.

2. Realizing the need for helping the Philippines improve its economy, institutions in the United States such as the Export-Import Bank of Washington, the World Bank, the Development Loan Fund, etc., are extending economic assistance. This aid is most welcome and should be utilized as early as possible. Unless, however, handled by one U.S. agency in the Philippines, its actual use may be delayed.

G. Recommendations

The seven years of the ICA aid program has brought about improvements in agriculture and industry, transportation, education, health, labor-management relations, public administration and community living. Its continuation will no doubt provide additional benefits and contribute further to the enhancement of the growth of free institutions in the Philippines. It appears, however, that inasmuch as the structure upon which further development could well be based has been efficiently built, there is now need for a reorientation of emphasis in the prosecution of the aid program.

The assistance program will better serve the interest of the Philippine economy and the implementation thereof may be more effective should the following recommendations be effected:

1. In view of the current foreign exchange difficulties of the Philippines, the ICA could have more of the dollar assistance funds directly utilized for the purchase of additional essential raw materials. To some extent direct foreign exchange assistance is achieved under Section 402 of the Mutual Security Act but this program is limited to the importation of surplus agricultural commodities. It is highly desirable that essential raw materials other than those of the surplus category be made available by the United States to the Philippines in liberal quantities.

2. The U.S. Government should be requested to increase its financial assistance in the form of loans for economic development under terms that would allow the Philippines to direct the aid towards the development of priority projects. In this connection, the distribution of the proceeds from the sale of commodities procured under U.S. Public Law 480 should be such that

at least 75 per cent is made available for loans for economic development. Furthermore, the U.S. Government should allow the Philippines to procure surplus agricultural commodities for the partial or full replacement of imports by waiving the requirement in the Act whereby only quantities over and above normal marketings may be allowed.

3. All types of U.S. assistance regardless of the source, are better handled by a single agency of the U.S. Government in the Philippines which is vested with full powers in its relations with the Philippine Government. The local U.S. Operations Mission could easily be this agency.

4. The recruitment of technical experts and advisors under the ICA program, the United Nations and its specialized agencies, the Colombo Plan, etc., should in the future be closely and directly related to the objectives of the national development program. The training program of Filipino technicians abroad should likewise place major emphasis on the chosen fields.

Chapter 11

SCIENTIFIC AND TECHNOLOGICAL DEVELOPMENT PROGRAM

A. The Role of Science and Technology

The development of science and technology is vital to the economic future of any society. The highest standards of living invariably characterize the economies of countries where science and technology have been developed to an intensive degree. Conversely, population growth is pressing on the means of subsistence in societies which have not learned to invent, to innovate and to adapt technologically.

Our government has awakened to the realization of this fact with the establishment in July, 1958, pursuant to R. A. 2067, of the National Science Development Board (NSDB). It has realized that a vigorous, positive, coordinated program of scientific research and development is essential to improve production and strengthen the productive base of the economy.

The science and technological program is geared to the specific objectives of the national economic development program. It is designed to support principally the development of the agricultural and manufacturing industries and to relatively smaller extent, medical and nutritional research and social development.

On a long range basis the problem of scientific and technological development lies in assuring a supply of well-trained scientists and technologists with a natural aptitude for research. This would require training the prospective scientists from childhood and the development of a curriculum that will assure a solid foundation for the country's future scientists or technologists. In the short run, the task in so far as the government program is concerned, is to harness people with both the training and natural bent for scientific investigation and make them work on the higher priority projects of research and development. This task involves making an exhaustive search for candidates, making a rigid selection and providing those who are selected with favorable conditions of employment including satisfactory levels of compensation. The immediate objective of fostering research and technology can also be served by governmental encouragement and support, in necessary cases, of existing private research.

In view of the limited resources in technical manpower, money and facilities, the NSDB is bound to reduce duplication of research activities to the minimum and to institute whenever practical the use of common laboratories for investigative work. Furthermore, it may, for want of adequate foreign exchange resources, have to accept foreign grants in technical training and in facilities. The limitations in resources also demand an understanding of scientific research and development according to their order of priority of need.

B. Objectives

The scientific and technological development program for the next fiscal years, 1959-62 take all the foregoing problems into consideration. It aims at:

1. The general improvement of the basic science curriculum in the elementary school.
2. The scouting for science talents and their rigid training early in their educational career.
3. The further training of promising adult scientists here and abroad.
4. The search for and encouragement through appropriate types of governmental assistance, of private individuals or organizations engaged in useful fields of investigation, invention or technical adaptation.
5. Building of a store of scientific knowledge directly useful to the immediate objectives of research and developments.
6. Organization, maintenance and coordination of an expanded research program.
7. Promotion of science activities, including competition and awards, exhibits and demonstrations, science week observvance, etc.

C. Program

The program of science development for the next three fiscal years is shown in the following page.

The research outlays shall be borne partly by the responsible organization and partly by the NSDB. The latter's share is designed to supplement research funds alloted to various research agencies in cases where resources would not permit completion of important research projects.

FINANCIAL REQUIREMENTS

(In Thousand Pesos)

PROJECT CATEGORIES	FY 1959-1960			FY 1960-1961			FY 1961-1962			GRAND TOTAL		
	Board Sponsored Projects	Gov't. & Private Researches not Financed by the Board	TOTAL	Board Sponsored Projects	Gov't. & Private Researches not Financed by the Board	TOTAL	Board Sponsored Projects	Gov't. & Private Researches not Financed by the Board	TOTAL	Board Sponsored Projects	Gov't. & Private Researches not Financed by the Board	TOTAL
RESEARCH	2,864	7,719	10,583	2,864	7,719	10,583	2,864	7,719	10,583	8,592	23,157	31,749
Agriculture	366	5,480	5,846	366	5,480	5,846	366	5,480	5,846	1,098	16,440	17,538
Industrial	652	983	1,635	652	983	1,635	652	983	1,635	1,956	2,949	4,905
Atomic Energy ..	604	604	1,208	604	604	1,208	604	604	1,208	1,812	1,812	3,624
Social Science ...	34	34	68	34	34	68	34	34	68	102	102	204
Others	1,208	618	1,826	1,208	618	1,826	1,208	618	1,826	3,624	1,854	5,478
GRANTS-IN-AID	540	18	558	540	18	558	540	18	558	1,620	54	1,674
Private Researches	340	18	358	340	18	358	340	18	358	1,020	54	1,074
Technical Manpower Development ...	45	—	45	45	—	45	45	—	45	135	—	135
Promotion	155	—	155	155	—	155	155	—	155	465	—	465
TOTAL	3,404	7,737	11,141	3,404	7,737	11,141	3,404	7,737	11,141	10,212	23,211	33,423

The financial burden for the government training in science and technology will be borne mainly by the public school system and the University of the Philippines. But a special training program in advanced research shall be conducted by the NSDB to develop in the short run a highly-trained corps of scientific technicians. The grant-in-aid to promote research and the science promotional activities will be financed out of appropriations of the NSDB.

D. Policy and Action Recommendations

The country's scientific and technological development can be accelerated by the following policies and measures:

1. Over and above regular appropriations, a substantial part of all savings of the government, in no case less than 10 per cent, must be donated to applied research.
2. Endowments to universities and donations or grants to government institutions for purposes of financing scientific research or development projects must be tax-free.
3. Immediate efforts should be exerted to improve the compensation of research personnel of the government.
4. Exceptionally important or meritorious researches should entitle the scientific worker to a bonus by the NSDB as an incentive to the scientist.
5. A loan guarantee fund of ₱1 million to be administered by the NSDB should be appropriated to guarantee loans in favor of deserving inventors to put their inventions into commercial production.
6. The NSDB should conduct a special training program for advanced research for scientific workers in the government and private industry using as instructors outstanding scientists in and outside the government service. The private research students who will be admitted at cost may work on problems of research of their own companies.
7. The NSDB should initiate the building of scientific brainstorming sessions by private industries with the same technical problems to improve productive processes and quality of products.
8. The NSDB should continue the policy of subsidizing deserving research projects undertaken by various government agencies particularly high priority project findings.
9. The NSDB should immediately establish a research pro-

gram to develop industrial uses for hitherto unutilized raw materials.

10. The opportunities for securing from foreign sources, financial or other assistance for research should be exploited to the fullest extent.

11. Priority shall be given by the NEC to the needs of scientific and technological development.

12. The NSDB should formulate an employment program for technicians who have been selected for and completed training in scientific research or technological development work to provide incentive to prospective scientists.

13. The government should maintain and in the future increase its financial support and other assistance to develop science and build up technical know-how as a vital factor to increasing national productivity and in laying a solid and lasting base for the economy.

Chapter 12

RECOMMENDATIONS FOR IMPLEMENTARY ACTION BY THE PRESIDENT, BY CONGRESS, AND BY VARIOUS AGENCIES OF THE GOVERNMENT

The various recommendations, policy or otherwise, embodied in the program will call in either case for: (1) approval by the President and enforcement through such implementing executive or administrative orders as may be needed and which are within the legal powers of the Executive Department to promulgate; and (2) for Congressional action on those recommended policies and measures which will require the sanction and force of law. In certain cases, however, some of the recommended policies and action measures are already within the power of various agencies to immediately implement without need for new authorizations from either the President or Congress. Accordingly, it is important to delineate the specific roles and responsibilities of various agencies in the implementation of new policies and measures to be approved either by the President or by the Congress. In this light, the recommendations indicated below are being presented:

A. Recommendations for Action by the President

Over-all Recommendations

1. Early approval and endorsement of the Three-Year Plan followed soon thereafter with instructions to all governmental agencies to use the plan as an overall guide in readjusting departmental (and other agency) plans and current action programs to the objectives and goals indicated therein.

2. Make the National Economic Council a clearing house for all proposed bills on economic development and those which, although they may not specifically refer to economic development, may exert an important effect on the growth of the economy, emanating from various government agencies for presentation to Congress and for all approved bills of the same nature preparatory to approval by the President.

3. Give priority to reorganization measures having to do with the implementation of development programs and calling attention to the close scrutiny of the "staffing" phase in consonance with the requirements of the new organization and the

effective carrying out of the reorganized function. The emphasis should be on the selection of qualified, highly competent personnel at least for key positions.

4. Course through the National Economic Council for study and consideration all proposals regarding economic policies and measures emanating from all government agencies for administrative decision by the President, to avoid possible conflicts with the objectives and goals embodied in the approved plan.

5. Require closer coordination and evaluation of activities, functions, and accomplishments of the various agencies by creating within available appropriations and means a small but effective evaluation unit on the departmental level in order to determine possible bottlenecks and possible measures to take to maximize program achievements.

6. There should be a simplification of the entire process of action on personnel matters. To avoid unnecessary delay of action on appointments, only those of a highly technical and executive nature should require approval of the Budget Commission and the Office of the President. Those below this level should only go as far as the Bureau of Civil Service. Furthermore, to improve the morale of employees and effect greater efficiency, job security and stability should be provided at all levels below that of Department Secretaries and similar positions.

Specific Sectoral Recommendations

Agriculture, Fisheries and Forestry.

1. Creation of a super national rice and corn production committee made up of high-ranking government officials on which the responsibiltiy of implementing the rice and corn production programs will rest.

2. Grant of authority to the Reparations Commission to procure ₱500,000 worth of rubber-roller hullers in FY 1960 and ₱1,500,000 in FY 1961 for distribution at cost to groups of farmers by the ACCFA.

3. Issuance of an Executive Order allowing the exportation of fancy rice varieties.

4. Grant of authority to the Philippine Ambassador in Washington, D.C. to negotiate with the United States government for an increase in the Philippine sugar quota to the United States.

5. Creation of an animal industry council to enhance the development of the animal industry.

Manufacturing and Mining.

6. Encouragement of the expeditious sale of government enterprises that private interests are willing to buy.

7. Creation of a Committee to be composed of representatives from the National Economic Council, the Central Bank of the Philippines and the Bureau of Mines, to re-examine the present incentives provided for the gold industry.

8. Adoption of a policy whereby the domestic output both in terms of raw materials and finished products shall displace, as they are produced, the corresponding imports.

9. Exploration of all possibilities of financing the NASSCO steel mill and the two other government projects included in the Plan.

10. Adoption of a policy whereby the investment proposals on the processing of traditional exports into higher stages of production as well as the production of new export goods are immediately approved.

Services Development.

11. Implementation of Reorganization Plan No. 60 creating the Office of Transportation Planning in the Department of Public Works and Communications for the efficient coordination of the development of land, water, and air transportation.

12. Implementation of R. A. 1398 providing a ₱20 million revolving fund from the amount authorized under R. A. 1000 for the construction, reconstruction or improvement of private or communal irrigation systems. This will permit the rehabilitation of private and communal irrigation systems that are now only 60 per cent efficient. With their rehabilitation about 360,000 hectares of farm land will be benefited.

13. Implementation of R. A. 1909—"The Philippine Coastwise Shipping Act" and R. A. 1407—"The Philippine Overseas Act" by making available the funds provided for in said acts.

14. Disposal of government stocks in the Philippine Air Lines through sales of these stocks to the private sector.

Finance.

15. Adoption of a policy requiring the public financial institutions such as the Government Service Insurance System, the

Development Bank of the Philippines, the Philippine National Bank and the Social Security System, to utilize their investible funds to help support the development of government securities market.

16. Adoption of a policy relative to the structure of government securities such that their maturities, interest rates, redemption and denomination are suited to the needs of the general public.

17. Adoption of a policy whereby private financial institutions will be required to channel reasonable portions of their total investments in the form of government securities.

18. Grant of preference to projects that will contribute to the increase in the nation's production of goods and services at the earliest possible time.

19. Grant of priority to projects that have small foreign exchange requirements but will eventually assist foreign exchange saving and/or earning activities except government projects such as the NASSCO steel mill and similar enterprises.

20. Grant of high priority to projects that will provide more employment opportunities.

21. Grant of preferential attention to projects that are self-liquidating in nature or those that will earn income to meet requirements for repairs, maintenance and amortization and interest payments.

22. Adjustment of the structure of government operating expenditures to maximize benefits from the use of government financial resources.

23. Gradual reduction of the level of national defense expenditures at the rate that will stabilize the level to about ₱150 million a year.

24. Adoption of a cash budget and improvement of the accounting system to enable the government to know its financial position on a cash basis.

25. Repeal of Executive Order 236 vesting upon an appropriate agency the functions of the fiscal policy council.

26. Adoption of the principle whereby the monetary and credit policy would give equal emphasis on the promotion of a rising level of output, employment and income, the preservation of the international value of the currency, and monetary stability.

27. Adoption of a multiple currency reserve system limited to some trade foreign currencies to widen the market of Philippine exports.

28. Adoption of a foreign investment policy designed to promote and encourage joint Filipino-foreign ventures with local participation amounting to no less than 60 per cent.

29. Adoption of a policy of allowing desirable productive enterprises to acquire capital good and raw materials on a deferred payment basis.

30. The grant of first priority by the foreign exchange allocating agency to the raw materials requirements, at higher level, of existing firms engaged in the following: food manufacturing and related industries; textile manufacturing and related industries; construction materials and related industries; drug manufacturing; general administration and education materials; and the fuel industry. Also included are other essential industries, the local raw material cost of which will be at least 75 per cent of total raw materials cost.

31. Allocation of foreign exchange for the establishment of new capacity for the implementation of the projects included in the manufacturing and mining investment plans.

32. Non-allocation of foreign exchange for the establishment of new non-essential and luxury industries, the classification of which shall be determined by the National Economic Council and the Central Bank of the Philippines, during the first two years of the program in order to discourage in the meantime investment in these areas.

Foreign exchange allocation of existing firms producing non-essential and luxury goods which depend on imported raw materials shall be cut, in the meantime, by 50 per cent or more in order to bring about a shift in the utilization of foreign exchange favoring the basic and highly productive industries.

33. Adoption of a policy whereby all investment programs organizing agricultural, manufacturing and mining establishment and such similar ventures which would require the use of foreign exchange be prepared and certified to by a recognized and reputable economic, engineering and management consulting firm before submission to the government office concerned.

34. Adoption of a policy relative to the allocation of foreign exchange such that sufficient funds for the importation of machinery, spare parts, etc., are allowed to producers of export products.

Social Development

35. Establishment of an Executive Staff Academy to conduct inservice training program for managers and executives in the government service.

36. Implementation of the remaining approved reorganization plans of the Government Survey and Reorganization Commission.

37. The launching of a program to identify training needs

and to study the overall conditions of local governments in order to enable them to participate actively in economic and social development.

Trade and Commerce

38. Creation of a Foreign Trade Promotions Committee to be composed of a representative each from the Department of Foreign Affairs, Department of Commerce and Industry, Central Bank and the National Economic Council, which shall, among other things, order the implementation of a re-orientation and training program for commercial attaches and consular officials and prescribe the manner of conducting such a program.

B. Recommendations for Action by Congress

Over-all Recommendations

1. Adoption of a joint resolution by Congress endorsing a broad economic policy of increasing production, real income and employment as a guide to economic planning and development.
2. Enactment of a law creating a Joint Committee on Economic Development in Congress with a competent staff on the professional level to study the Economic Development Plan of the President.
3. The implementation of the program will require enactment of laws making available funds for the projects in the Plan. The goals set forth can be achieved only when the financial requirements are satisfactorily met.

Specific Sectoral Recommendations

Agriculture, Fisheries and Forestry.

1. An Act to amend R. A. 2084 by increasing the amount provided for, by ₱5 million a year for three years and the amount for fertilizers to be constituted into a special revolving fund.
2 An Act banning the importation of rice and corn.
3. An Act providing for the gradual Filipinization of the rice and corn trade.
4. An Act appropriating ₱20 million to be used as a fund to guarantee loans given the NARIC by lending institutions.
5. An Act establishing a floor price of ₱9.00 per cavan of palay and ₱7.00 per cavan of corn.

6. An Act appropriating ₱150,000 for the establishment of a potato-onion-garlic-black pepper seed farm in Mountain Province.

7. An Act authorizing the expansion of the Davao Abaca Seedling bank and appropriating necessary funds therefor.

8. An Act to amend R. A. 1194 to limit government purchase of Virginia leaf tobacco to high-quality leaf only.

9. An Act giving a cash subsidy of ₱0.10 per pound of cotton produced and sold to spinning mills, the funds for the subsidy to be raised from additional tax on imported textiles.

10. An Act to amend the National Internal Revenue Code eliminating the 7 per cent tax on the gross sales of raw rubber locally produced.

11. An Act appropriating ₱2 million a year for three years for the importation of superior breeds of animals and for other purposes.

12. An Act to amend R. A. 309 allocating one per cent from the gross earnings of the Games and Amusements Board from horse races, to the Bureau of Animal Industry for horse improvement work.

13. An Act authorizing the Bureau of Animal Industry to establish stock farms and appropriating funds therefor, and for other purposes.

14. An Act establishing an animal quarantine station under the supervision of the Bureau of Animal Industry and appropriating funds therefore, and for other purposes.

15. An Act appropriating the amount of ₱150,000 for the production of vaccines for animal disease control work and for other purposes.

16. An Act appropriating the amount of ₱100,000 for the expansion of the artificial insemination program of the Bureau of Animal Industry and for other purposes.

17. An Act appropriating the amount of ₱150,000 for an expanded research program in livestock production and for other purposes.

18. An Act establishing a deep-sea fishery guarantee and loan fund and appropriating ₱2 million a year for three years therefor.

19. An Act appropriating the amount of ₱900,000 to be spent at the rate of ₱300,000 a year for the establishment of fish hatcheries and nursery ponds and for other purposes.

20. An Act appropriating the amount of ₱450,000 to be expended at the rate of ₱150,000 a year for exploratory fishing survey for tuna and other deep-sea resources.

21. An Act appropriating the amount of ₱600,000 to be spent at the rate of ₱200,000 a year for an expanded fishery research program.

22. An Act appropriating the amount of ₱300,000 to be spent at the rate of ₱100,000 a year to expedite settlement of conflicts regarding applications for lease of fishponds.

23. An Act prohibiting assessment of lands within public forests and penalizing violations thereof.

24. An Act providing for the establishment of permanent forests and prescribing the manner of their reduction or disestablishment and appropriating funds therefor.

25. An Act prohibiting the survey by private land surveyors of public forests without prior authority from the Director of Forestry, and providing penalties therefor.

26. An Act empowering the Director of Forestry to dispose of forest products through public bidding and for other purposes.

27. An Act appropriating the amount of ₱600,000 to be expended at the rate of ₱200,000 a year for forests protection and for other purposes.

28. An Act appropriating ₱300,000 to be expended at the rate of ₱100,000 a year for sustained-yield management of forests.

29. An Act amending R.A. 821 to establish a guarantee and loan fund of ₱60 million authorized at the rate of ₱20 million a year for the ACCFA, for the expansion of its crop loan lending operations.

Manufacturing and Mining

30. An Act creating a National Development Authority, defining its functions and for other purposes.

31. An Act dividing the National Shipyards and Steel Corporation into the National Steel Corporation and the National Shipping and Shipyards Corporation.

32. An Act amending Section 13 of the Corporation law to allow a person or corporation not engaged in mining to hold unlimited interest in not more than three mining companies, provided that should a person or corporation hold interest in more than three, such interest shall not exceed 40 per cent of the stock of any such corporation.

33. An Act whereby the grant of franchise for the establishment of electric power plants shall be conditioned on the use of coal as fuel whenever feasible in areas where coal is available to widen the market and utilization of the product.

34. An Act amending the Petroleum Act (R.A. 387) for the purpose of clarifying certain provisions in accordance with the experience and observations of the Bureau of Mines and the Department of Agricultural and Natural Resources.

Services Development

35. Authorization and appropriation of funds for: (a) the construction of irrigation systems to increase the irrigated area by 257,000 hectares during the program period, (b) flood control work particularly along the Agno and Pampanga River and the dredging of esteros in Manila, (c) for the construction of school buildings with a capacity of 2,200 classrooms a year for three years to alleviate the shortage of rooms in the elementary schools, (d) the construction of new hospitals and the expansion of existing hospital facilities to accommodate 1,000 hospital beds in three years, (e) the construction of 2,100 low-cost housing units in three years to improve the conditions in slum-squatter areas.

36. An Act amending Sec. 4 of RA 1909, the Coastwise Shipping Act, to reduce the 20 per cent down payment requirement on the acquisition of new boats to only 10 per cent of the cost upon execution of the contract with NASSCO for the construction of vessels.

37. An Act amending Sec. 5 of RA 1407, the Philippine Overseas Shipping Act of 1955, the increase shipping loans under said Act from 75 per cent to 90 per cent of the cost of vessels.

38. Provision of funds for the construction of 5,000 kilometers of feeder roads and the improvement of 16 national ports and 25 airports.

39. Enactment of a law to regulate the exploitation of underground water resources to complement our present water rights laws.

40. Re-examination of RA 1383, the NAWASA law, to formulate an amendment with a view to reconciling the conflicting interests of municipal, provincial, and city authorities and that of the NAWASA.

Finance

41. Amendment of sections 21, 24, 30, 34, 45 (b) and (d), 47, 51, 53 (a), (b) and (e), 113, 134, 135, 137, 191, 203 of the National Internal Revenue Code.

These amendments will increase total governmental revenues by about ₱100 million. They involve the reversion of pertinent tax rates to old tax rates and new fiscal measures.

42. An Act to increase the gasoline tax by ₱0.02 per liter. This will involve an increase in revenue of about ₱16 million.

43. An Act to amend Sections 69 and 70 of the General Banking Act giving all commercial banks equal privileges regardless of ownership.

44. An Act to amend R.A. 265 allowing the establishment of a National Deposit Insurance System to strengthen the commercial and savings bank systems.

45. An Act adopting any or a combination of the following alternatives which are all aimed at increasing the country's foreign exchange earnings:

a. Imposition of 30 per cent tax on all types of import (special import privilege levy) transactions payable upon the opening of the letter of credit. Items that enter the imported components of the cost of living such as drugs, basic food-stuffs, etc., shall be exempted from this tax.

b. A profit differential incentive to export on the basis of from 10-20 per cent of world market prices of the product involved. The rate given will depend on the level of profits of the particular industry relative to other export industries and on the stage of processing of the commodity.

c. Retention of from 15-20 per cent of the foreign exchange earnings by the producer of the product exported to the U.S. market and of from 20-25 per cent on products exported to other world markets. The retained foreign exchange shall be in the form of import certificates maturing from 90 to 180 days and could be sold in the free market for the importation of non-essential consumer and/or capital goods and raw materials for desirable productive enterprises.

d. A foreign exchange scheme involving a multiple rate system. Three foreign exchange rates for both sales and purchases of foreign exchange shall be used: 2 to 1; 2.5 to 1; and third rate determined in the free market, each rate applicable to certain types of exports and imports. The rate structure shall be subject to periodic examination and review by the planning agency of the government.

46. An Act creating the National Authority on Trade and Industry which shall relieve the Central Bank of its import and export functions and shall serve as the agency that will implement the economic policies of the government relating to the promotion, development and protection of private industry and trade. It shall administer and implement policies relative to the promotion of joint ventures in the Philippines, the multiple reserve system, procure-

ment of capital goods and raw materials on deferred payment, and the measures aimed at increasing foreign exchange earning of the country.

47. An Act to repeal the No-Dollar Import Law (R. A. 1410).

48. An Act to repeal R.A. 901 (Tax exemption law of new and necessary industries).

49. An Act providing for the priority listing of foreign exchange requirements of new development projects manufacturing and mining and for other purposes.

Social Development

50. Increase of the outlay for the Department of Education by ₱50 million, ₱52 million and ₱49 million in FY 1960, FY 1961 and FY 1962, respectively, to meet the requirements of the program on education.

51. An Act requiring private universities and colleges to establish scientific research centers for basic and applied research.

52. Amendment of Income Tax Law so as to make grants, donations or endowments to public or private educational institutions to improve facilities and/or scientific researches and investigations fully deductible from the income of the donors and to exempt donees from gift taxes.

53. Approval of a bill to stabilize the financing of public secondary schools.

54. Transfer of all initial appropriation for new agricultural schools already approved by Congress but not yet established to other existing agricultural schools whose municipal or provincial support has been withdrawn.

55. Increase of the outlay for the Department of Health by ₱2.511 million, 2.45 million, and 2.60 in FY 1960, FY 1961, and FY 1962, respectively, to provide enough funds for the implementation of the health projects.

56. Provide funds for the implementation of the manpower and labor welfare, the social welfare, the community development and the public administration programs.

57. Provide funds for the implementation of approved Reorganization Plans.

58. Enactment of appropriate legislation regarding lobbying in the Congress by pressure groups, and of legislation prohibiting members of Congress and responsible officials of the executive department from making representations before offices or agencies

of the Government having to do with the grant of privileges, franchises or other benefits in favor of private individuals, corporations and other organized groups;

59. An Act fixing the tenure of office of the heads of the Bureau of Civil Service, Bureau of Customs, and the Bureau of Internal Revenue who shall be removable from office only through impeachment.

60. Revision of the Civil Service Law to readjust personnel processes and functions in accordance with the needs of the general plan for economic and social development.

61. Elimination of the undesirable features of implementation of the wage and position classification system and the transfer of its functions from the Budget Commission to the Bureau of Civil Service.

62. Integration of all the legal measures designed to prevent graft and corruption and the organization of a machinery that will insure the curtailment of all forms of dishonesty and expedite action on all cases of irregularity.

Trade and Commerce

63. An Act appropriating ₱1 million for the improvement of Tagaytay City and areas along Taal Lake, and ₱2 million annually for FY 1961 and FY 1962 for the improvement of other tourist resorts accessible to Manila. The decision on the priority of utilizing the ₱2 million for other tourist resorts shall be vested on a Tourist Resort Development Committee.

64. An Act appropriating ₱500,000 for the Bureau of Public Schools and ₱1 million for the NAMARCO to be used as a revolving fund for the purchase and sale of quality home industries products and for the work of improving the quality, design and standards of such products.

C. Recommendations for Action by Various Agencies of the Government

Over-all Recommendations

1. Develop the necessary staff in all government agencies for planning and programming the particular activities of the office, as well as for the analysis and evaluation of program performance and problems.

2. Examine present operating and administrative procedures

and policies and bring them into line with the policies and objectives prescribed in the development program.

3. Plan and program the activities for each succeeding year along the direction and objectives of the economic development program.

4. Adopt a system of upgrading technical personnel by in-service training and advanced training abroad through the technical assistance programs, including that to be developed under the reparations agreement.

Specific Sectoral Recommendations

By the Department of Agriculture and Natural Resources

1. Acceleration of its research program on scientific farming practices including the use of fertilizers and high-yielding seeds on non-irrigated lands.

2. Intensification of its campaign to encourage private enterprises to go into production of high-yielding seeds of rice and corn and of large scale planting of cassava, camote, Irish potatoes, peanuts cashew, coffee, cacao, black pepper, etc.

3. Consolidation of the coconut research work in the Bureau of Plant Industry which will be responsible for developing a systematic scheme of establishing new coconut plantations to replace old and disease infested areas.

4. Enlistment of the services, under the UNTAA, of one (1) plant virologist to work on kadang-kadang; of (1) fisheries biologist for assignment in the Bureau of Fisheries; and one (1) veterinary parasitologist to assist the Bureau of Animal Industry.

5. Intensification of the campaign on the use of modern abaca-stripping machines.

6. Expansion of the existing government stock farms, breeding stations and centers and provision of funds for the purpose.

7. Undertaking a periodic and regular nation-wide livestock immunization program through a joint cooperative effort of the Bureau of Animal Industry and the Bureau of Agricultural Extension.

8. Expeditious resolution of conflicts arising from overlapping fishpond claims.

9. Undertaking through the Bureau of Fisheries extensive fish stocking of depleted fresh water units including the establishment of fish hatcheries and ponds.

10. Undertaking through the Bureau of Fisheries an exploratory survey for tuna and other deep-sea resources.

11. Expansion of fishery research program.

12. Encouragement of the pearl culture industry by the Bureau of Fisheries.

13. Initiation and follow-up of a vigorous and systematic campaign of information on forest conservation, availing for the purpose the cooperation of the schools, parent-teachers associations, rural clubs, DANREAS, barrio councils, PACD units, etc. The national, provincial and municipal forestry councils should be reactiviated to bring about coordination of efforts.

14. Acceleration of the development of the system of community forests, school forests, etc.

15. Resettlement of squatters and kaingineros occupying forest lands in government settlement projects, tree farm zones, or at the nearest available disposable lands.

16. Intensification of the "forest sector" system of forest protection; and establishment of closer cooperation and coordination with the Philippine Constabulary, courts of justice and provincial fiscals on the apprehension and disposition of forest law violators.

17. Acceleration of campaign for the general adoption by timber licensees of selective logging system in all permanent forests.

18. Modification of the present system of renewing timber licenses on an annual basis such that after a reasonable probationary period of say, 2 or 3 years, 5 to 10 years licenses could be granted to qualified and deserving operators. Licenses should be awarded with the ultimate view of developing integrated wood-using industries.

19. Reduction of the inspection fee on lumber for export from ₱3.00 to ₱2.00 per thousand board feet; increase of the fee on log export from ₱3.00 to ₱5.00 per thousand board feet.

20. Assignment of special field teams to provinces with enormous backlogs of applications for pastures, tree farms and other applications for special forest land uses pending survey and inspection to expedite action on these applications.

21. Acceleration of the zonification of the public domain for pastures, tree farms, fishponds and other special forest uses to accommodate prospective permittees.

22. Encouragement of lumbermen and industrialists to go into planting of quick growing cash timber crops through the woodland lease system.

23. Closer coordination of work between the Philippine Constabulary and the Bureau of Internal Revenue, in order to plug or minimize leakages in revenues, loopholes and delays in collection of forest charges.

24. Revision of the land classification system with a view of accelerating the establishment of permanent forests.

25. Assignment of more log scalers in logging operations to insure collection of forest revenues.

26. Re-orientation and acceleration of the reforestation program for which an additional appropriation of ₱1 million a year for three years shall be provided.

By the Land Tenure Administration and the NARRA

27. Re-examination of the landed estates purchase and resale program to assure maintenance or improvement of the productivity of the farm units sold.

28. Acceleration of the resettlement program of the NARRA and its establishment of one agricultural colony a year for three years under a pattern suggested in the economic development program.

By the National Power Corporation

29. Completion of the Binga Power Project and the Marikina Multi-Purpose Project to increase the electric power supply in the Manila and suburban areas by 128,000 KW.

30. Construction of the Maria Cristina Units No. 3 and No. 4 with a total capacity of 100,000 KW and of small hydro-electric plants with a total capacity of 6,200 KW together with the extension of transmission lines to developing rural areas.

By the NAWASA

31. Construction and improvement of 98 waterworks systems, the drilling of 4,200 artesian wells, and the development of 900 springs.

By the Reparations Commission

32. Making available to the NASSCO, shipping and construction materials and equipment for the construction or reconstruction of coastwise vessels and watercraft, provided the cost of construction should be on a cost plus basis.

33. The inclusion of the requirements of the Manila Railroad Company Extension Line to the Cagayan Valley in the 5-year Program of the Reparations Commission as provided for in Sec. 3 of RA 1867.

34. Procurement of the fishing boats, nets, and gear that have been scheduled for acquisition from FY 1959 to FY 1961 to be expedited.

By the Department of Education

35. The printing of Grades I and II Primers (readers) and the purchase of intermediate books worth ₱15 million provided in the Program.

36. The training of at least 300 teacher-technicians every year, who will train craftsmen in order to ensure the standardization of marketable crafts produced.

37. More rigid enforcement of the standard sizes prescribed for different classes.

38. Closer supervision of alien schools particularly the Chinese schools.

39. Inclusion of more indigenous teaching materials in Catholic schools curricula.

40. Establishment of a scientific research center in all private universities.

By the University of the Philippines

41. Expansion of the academic program of the Institute of Public Administration through grants of scholarships to qualified young men and women in the university and government agencies.

42. Establishment of a graduate program in Engineering.

43. Improvement and expansion of the research facilities and the research competence of the faculty.

44. Improvement of salary scales on the basis recommended by the Hanna Survey report.

45. Further training abroad of faculty members especially those engaged in the fields of science and technology.

By the Department of Health

46. Provision of more adequate laboratory facilities and trained scientific technicians to improve basic researches and to intensify the production of sera and vaccines such as cholera-dysentery-typhoid vaccines, BCG, flu, rabies, tuberculin, etc., to support the expansion of preventive medical services.

47. A more intensive campaign against intestinal parasites by pertinent government offices with the assistance of public schools.

48. Assignment of more nurses and midwives to the Rural Health Units and Puericulture Centers to eliminate "hilot" practices in delivery cases, and to improve maternal and child care.

49. Improvement of medical care and expansion of existing hospitals through the implementation of RA 1939 which fixes the proportionate share of the National, Provincial, City and Municipal Governments to the funds for the operation and maintenance of free beds in government hospitals and the provision of additional beds and the establishment of wards or pavilions.

50. Intensification of the educational campaign in the proper handling of garbage and the sanitary disposal of human wastes. Sewerage, drainage systems, comfort stations should be constructed in big centers of population.

51. Coordination with NAWASA on the construction of artesian wells and development of spring so as to locate them in areas where potable water is most needed.

52. Expansion of the mobile and stationary chest health units to provide a wider coverage for detection and case treatment.

53. Improvement of the collection, analysis, and timely reporting of vital statistics to provide the information necessary in the proper control of infectious diseases and the formulation of policies and future programs on public health.

54. Provision of facilities and technical personnel for a nutrition survey and for the intensification of nutrition education.

By the Department of Labor

55. Development of the national apprenticeship program.

56. Establishment of ten regional labor market information offices and expansion of the staff and facilities of the present Labor Statistics Division of the Department of Labor.

57. Periodic holding of Labor-Management Congresses.

58. Expansion of labor law enforcement activities of the Department of Labor.

59. Eventual abolition of the "sacada", "cabo" and similar practices.

60. Implementation of the recommendations of the Special Committee appointed by the Secretary of Labor in 1956 relative to survey of employment conditions in the sugar industry.

By the Code Commission

61. Codification of all labor laws.

By the Industrial Development Center

62. Expansion of the training program for managerial and supervisory personnel.

63. Provision of assistance to management groups in the application of modern management techniques.

By the Social Welfare Administration

64. Establishment of four vocational rehabilitation centers.

65. Revitalization of the SWA through proper staffing during the reorganization process as well as the holding of in-service training programs.

66. Development of preventive social services and the establishment and maintenance of a social development pilot center for research and demonstration.

By the People's Homesite and Housing Corporation

67. Expansion of the low-cost housing projects to accommodate the housing needs of the low-income group.

By the Presidential Assistant on Community Development

68. The "social process" goal which is the development of citizen competence through participation rather than the "achievement" goal which is the mere increase of physical facilities in the community development program should be emphasized.

69. Studies on approaches, techniques and organization of community development for the purpose of assembling basic materials to further the effectiveness of the program, should be continued.

70. Community development efforts should be geared to national programs, and national programs be made more responsive to local aspirations.

By the Department of Justice

71. Strict enforcement of the Anti-Dummy Law.

72. Strict enforcement of penal laws and administrative orders

By the Budget Commission

73. Intensification of training programs for management analysts on a continuing basis, giving top priority to agencies directly administering economic and social development projects.

Central Bank of the Philippines and the National Economic Council

74. The re-examination of the consumer price index by the Central Bank of the Philippines and the National Economic Council in order to make it reflective of price conditions in the whole country.

Central Bank of the Philippines

75. Adoption and maintaining of a fixed ratio (20 per cent) of international reserve to money supply.

76. Re-examination of the Central Bank remittance formula to make it more flexible subject to periodic examination in the light of the foreign exchange situation.

By the Department of Commerce and Industry

77. The organization of private business associations in both foreign and domestic trade to be initiated and fostered by the Department of Commerce and Industry which will provide the technical services and facilities.

78. The promotion of intensified sales campaign for our export commodities by the Department of Foreign Affairs in cooperation with Department of Commerce and Industry.

By the Tariff Commission

79. Making use of the tariff as a means of providing protection to infant industries instead of tax exemption and other subsidy schemes which mean a loss of revenue on the part of the government, on the giving and acceptance of gifts by public officials.

Other Government Agencies

80. Improvement of accommodation facilities of the public elementary, secondary, vocational, and technical schools.

81. Modernization of the existing Manila Railroad facilities and the extension of the line to the Cagayan Valley.

APPENDIX II

TO THE

STATE OF THE NATION MESSAGE

OF

PRESIDENT DIOSDADO MACAPAGAL

JANUARY 22, 1962

SUMMARY

ECONOMIC GROWTH IN THE PHILIPPINES:

A PRELIMINARY REPORT PREPARED BY THE STAFF OF THE IBRD

JANUARY 4, 1962

021798

Economic Growth in the Philippines:

A Preliminary Report Prepared by the Staff of the IBRD

GOALS AND ISSUES

1. The economic program suggested by the IBRD Mission for the period 1962–66 has four principal aims: acceleration of the rate of economic growth, substantial strengthening of the industrial and agricultural bases of the economy, increase in employment and improvement in external financial position. In order to achieve these goals, great increase in the development effort will be necessary. Also, meticulous care will have to be exercised in resource allocation and use.

2. A radical step-up in development expenditure is dictated by the gravity of the structural problems which the economy faces. Population is presently increasing at least at 3.2% per annum, with probable acceleration to a 3.5% rate in the latter half of the 1960's. Labor force growth exceeds 3% or 300,000–350,000 annually. In addition, there is a large backlog of unemployed and underemployed.

3. The only lasting solution to the unemployment problem is a large increase in the rate of investment and consequent acceleration of economic growth. The present rate of investment is insufficient to assure growth in income in excess of population increase, and it is also insufficient to employ the expected increment in the labor force. Moreover, there is a danger that the investment rate may fall in the transition from a controlled to a more free economy, unless offsetting action is taken. If the investment rate is not raised substantially and quickly, it can be confidently predicted that the employment problem will be aggravated and the present sluggishness of the economy continued.

4. In the past, the aggregate investment outlay was relatively low in relation to growth in output due to some special factors. There was growing utilization of unused capacity in agriculture, the running down of the capital stock in transport facilities and the relatively low capital cost in the industries—mostly consumers manufactures—which were established. These factors will lose their force in the years to come. The economy has reached a stage of development in which the manufacturing plants to be set

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up will have, on the average, a higher capital intensity. The backlog in transportation must be made up. Investment in social services—which do not immediately increase output—has to be stepped up. In other words, the economy would have to mount a higher effort than in the past even if the goal was only to maintain the past rate of per capita growth. And since we assume that the national goal is to accelerate growth, the required investment outlay must be much larger, particularly if a solid base is to be created for sustained economic development in the future.

5. The external economic position of the Philippines is vulnerable both over the medium term and in the long run. World market prices of coconut products and abaca—40% of exports—will in all likelihood be lower in the next five years than in the late 1960's. Also, the dollar proceeds from U. S. expenditure in the Philippines will fall somewhat following the devaluation of the peso. The resulting deterioration in foreign exchange position and in real income must be offset by increases elsewhere if the nation as a whole is not to suffer.

6. Over the longer run, the economy must prepare itself for the time when its special position in the U. S. sugar market will no longer exist. The adjustment problem is not limited to sugar. The preferential position for other exports to the U. S. will also gradually disappear and veterans' pensions and some other receipts will taper off. New dynamic export products must be developed as quickly as possible to supplement the traditional export items. At the same time, import substitution in intermediate produces and raw materials must be undertaken on a serious scale. These are the conditions for economic independence and self-sustained growth. They call for large capital outlays in new lines of production and for highest standards of administrative and managerial efficiency.

SUGGESTED PROGRAM OUTLINE

Total Metal Investment and Public Outlay

7. On the basis of an analysis of the capabilities of the Philippine economy and of production and demand prospects in various economic sectors, the Mission believes that the investment rate should and could be stepped up from an estimated level of less than 14% in 1956–60 to 17.5% in 1962–66. Total gross investment bill for 1962–66, expressed in assumed post-devaluation prices, would amount to ₱14.3 billion, compared to ₱8.5 billion in 1956–60, i.e., an increase in real terms of 70%. Gross fixed capital outlay alone would rise by close to 80%. If the Philippines met this target and then undertook another major investment and savings effort in the latter 1960's, there is a prospect that ten years from

now the country may have enough productive facilities and skills to assure steady growth in real income and in the welfare of its population.

8. The largest increases in investment outlay for 1962–66 are suggested in industry, agriculture, transportation, power and water, and construction. Capital formation in organized industry is projected as more than doubling in the 1962–66 period, and in agriculture as doubling. Primarily in support of growth in these sectors, transport investment is also scheduled to double, while utilities (mainly power) and the construction trades should expend proportionately even more. Capital formation in mining should rise by at least 50%. The share of investment in these five fields in the total fixed capital outlay is expected to increase sharply during 1962–66. By contrast, the other fields (commerce, trade, services, residential construction), although rising significantly in absolute amounts, are projected to show an equally significant relative curtailment, from 37% of total investment in 1956–60 to 28% in 1962–66. The principle here is that commodity-producing sectors and their supporting activities should have priority claim on total resources available for investment.

9. Of the total investment projected for 1962–66, direct public sector outlays amount to ₱4 billion, as against ₱2.2 billion in 1955–60 (both at assumed post-devaluation prices). The increases are particularly large in economic development sectors: agriculture, transport, power and water and construction equipment. Among the social services, a rise of 50% is foreseen in public health and education capital requirements. There is also a suggestion that a moderate public low-cost housing program be initiated in this period.

10. Government contribution to capital formation is not limited to direct public investment. The Mission projects a large amount of public capital transfers to the private sector for purposes of investment. These transfers are provisionally estimated at ₱1.4 billion for the five-year period 1962–66. The largest components are government assistance, mostly through public credit to the industrial sector, and government support to rural credit institutions. While the actual amounts will have to be determined from time to time depending on concrete needs, it is believed that a substantial financial assistance will be necessary in order to meet the investment and production targets set for the two sectors.

Programs by Main Sectors

11. The main items of the proposed investment program in organized industry are the establishment of the steel industry and

the associated growth in metal working and machinery industries, several-fold increase in fertilizer production, doubling (or more) of capacity of the cement industry, establishment of the aluminum industry, doubling (or more) of capacity of the plywood and veneer industry, large-scale expansion in pulp and paper production, rapid growth in food processing industries and rounding out of capacity in textile manufacturing and petroleum refining. If the scheduled investment is carried out, the structure of the capital stock of the Philippine industry will, in the span of five years, have changed dramatically in the direction of basic industrial processes.

12. In agriculture, the Mission envisages a large-scale expansion of the livestock industry, accelerated development of "new" crops (cacao, rubber, citrus, arabica coffee), substantial growth in corn production for the home market and for exports, and improvements in the rice economy. The use of fertilizers is projected to treble in the next five years; this will be facilitated by a large-scale expansion of rural credit. Large increases in extension services are suggested, and also, a sharp step-up is proposed in government research work on irrigation and drainage, in order to make possible, at a later stage, a greatly expanded program of irrigation works. Major increase in the public resettlement program is suggested. In forestry, the Mission urges the Government to adopt a firm and enforced policy of selective cutting; otherwise, there is a danger of suicidal forest destruction. Also, a major effort on reforestation is needed in areas now suffering from erosion. The measures proposed by the Mission and involving considerable volume of maintenance and construction activity, amount, in effect, to a rural civil works program which could lead to a significant increase in employment.

13. In transportation, the Mission proposes a large increase in investment expenditure on roads in order to catch up with past arrears and to lay a foundation for future economic growth. Resurfacing program embracing about 4,000 kms. of selected highways is suggested with the purpose of removing existing bottlenecks. In addition, the capacity of the road system should be expanded to allow for increased traffic. Roads must also be constructed in order to open new land for cultivation, particularly in Mindanao. The expenditure on port construction and enlargement is projected to increase considerably and the investment on airports and air fleet—the most dynamic of all modes of transport in the Philippines—is proposed to treble compared to the past five years.

14. Investment in power will have to accompany the anticipated growth in power-intensive industries and the expected expansion in household use of electricity. Large additions to generating capacity

will be necessary; relatively greatest will be the expansion of the Mindanao grid which will have to supply power to the steel, aluminum and other industries.

Growth in the Output, Employment and Income

15. The projected investment outlay, together with better utilization of existing capacity, should lead to a growth rate in real output of over 6% in the next five years—a substantial step-up from the recent experience. Industrial output is expected to increase close to 11% annually, mining in excess of 8% and agricultural production around 5%.

16. Employment should rise at a rate in excess of 3% per year, thus creating 1.7 million new jobs between 1960 and 1966, compared to an estimated 1.1 million in 1955–60. In addition, the projected increase in productivity per worker should be accompanied by a reduction of under-employment and by an increase in per capita income particularly in agriculture and manufacturing. Visible unemployment and under-employment is expected to fall from an estimated 11% of the labor force in 1960 to between 6 and 7% by 1966.

17. Despite the heavy increase in investment outlay and the expected deterioration in the terms of trade, the growth in real output is expected to be sufficiently fast to enable private per capita consumption to rise during the period. Between 1960 and 1966, the projected yearly growth rate is 4.8% or about 1.5% per capita. This is better than in the past five years, although, admittedly, it is not much. However, the Mission does not see any other alternative. A degree of austerity in the next several years is an absolute condition for the solution of the structural problems of the economy and thus for a faster increase in output and consumption in the future.

RESOURCE MOBILIZATION

Financing the Program as a Whole

18. The national savings effort which is required to finance the suggested investment program will be substantial. The Mission suggests a target savings rate for 1966 of 15% of gross national product, compared to an estimated 12% in 1960. This implies that between one-fourth and one-fifth of the increment to income accruing within the next five years should be saved (i.e., the marginal savings rate of about 22%). This is difficult, but not unattainable.

Some other countries have done it. The Philippine economy itself, starting from a much lower average savings level, has succeeded on two occasions in the post-war period in realizing a high marginal savings rate. What is required now is another major upward push to a level which will represent a solid base for further advances in the latter 1960's.

19. If an effort of the suggested magnitude is made, the national economy should be able to finance about ₱11.5 billion out of the total gross investment bill of ₱14.3 billion, or around four-fifths. (On a net basis, i.e., excluding depreciation, this would work out at slightly less than 70%.) Given domestic effort along these lines, it is natural to assume that the Philippines will wish to seek capital from abroad for the remainder of ₱2.8 billion ($800 million at the ₱3.50 rate). The Mission has made the following illustrative assumptions regarding the possible composition of capital inflow:

FOREIGN CAPITAL MOVEMENTS, 1962–66
(In millions of U.S. dollars)

I. *Gross Inflow*	
1. Unilateral receipts	
(*a*) Reparations	125
(*b*) Settlement of war claims with U. S.	70
(*c*) Grants from the UN, etc.	5
Sub-total	200
2. Conventional loans	
(*a*) Disbursement of existing loans	120
(*b*) Disbursement of loans to be negotiated	420 [a]
Sub-total	540
3. Net new foreign investment and repatriation of Filipino capital held abroad	120–170
4. Reinvested earnings of foreign companies in the Philippines	190
5. "Soft" loans, i.e., loans repayable on "easy" terms, and grants	150
Total Gross Inflow	1,200–1,250
II. *Outflow*	
1. Repayment of conventional loans	
(*a*) Existing loans	225
(*b*) Loans to be contracted	30
Sub-total	255
2. Replenishment of foreign exchange reserves	150–200
Total Outflow	405–455
III. *Net Inflow*	
1. Net inflow including reinvested earnings of foreign companies in the Philippines	800
2. Net inflow excluding reinvested earnings	600

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[a] For this amount to be disbursed, total loans contracted should aggregate $600 million.

20. It should be emphasized that both the totals and the components of the totals quoted above are subject to change depending on the assumptions made. In particular, with a clarification of policy towards foreign private investment, more private foreign capital may come in than projected above, thus reducing the burden on the domestic economy. Furthermore, the Mission has not explored with any possible source of finance how realistic the projections of other flows are. They reflect only the Mission's guess of what the Philippine economy could, under favorable circumstances, wish to achieve.

21. In this context, the attention should be drawn to items I : 2, I : 3, I : 5 and II : 2. The Mission believes that it will be impossible to carry out the program unless foreign exchange reserves (item II : 2) are replenished to a level which is a reasonable minimum given the size and the character of Philippine external trade. Indeed, unless international reserve is restored and the present currency uncertainties removed, items I : 2 (conventional borrowing) and I : 3 (net new foreign investment and capital repatriation) will not be realized. Further, the actual size of the flow under I : 2 (conventional borrowing) will depend on the composition of new indebtedness. Large short-term and medium-term borrowing will exhaust Philippine credit-worthiness more quickly than assumed above, thus resulting in smaller net capital inflow. Finally, all the flows, but particularly under I : 2 and I : 5 ("soft" loans) will be directly dependent on the magnitude of the national savings effort which the country is ready to undertake.

22. The assumed net inflow of capital of $800 million is double the size the Philippines obtained in 1956–60. Moreover, if reinvested earnings of foreign companies are excluded in both periods, the projected net "cash" inflow for 1962–66 works out at $600 million, compared with actual receipts of $200 million in 1956–60. Such a large increase can occur provided certain conditions, including the solution of the public finance problem, are met.

Public Finance Problem

23. Fiscal policy will have to play a major role in financing during the next five years. As mentioned earlier, direct public investment for 1962–66 is projected at ₱4 billion and capital transfers are provisionally put at ₱1.4 billion. In addition, there are current government expenditures and some other items. The Mission has attempted to keep increases in these at a minimum. Nevertheless, a substantial rise is necessary if reasonable targets of economic and social development are to be achieved. The Mission has projected an expansion in current government outlays on goods

and services of 45% to a level of around ₱6.9 billion. Current transfers (mostly pensions and interest) are projected at about ₱500 million. Adding some minor items, the total bill for all levels of government in the period 1962–66 is estimated at ₱12.9 billion.

GOVERNMENT EXPENDITURES, 1962–66 (Millions of pesos)

Direct Outlays	
Current Expenditures	6,940
Fixed Capital	3,940
Inventories	40
Total Direct Outlays	10,920
Current Transfers	
Subsidies	90
Pensions, backpay, etc.	260
Interest	175
Total Current Transfers	525
Land Purchases	50
Capital Transfers (provisional)	1,400
Grand Total	12,895

24. To meet this bill, the Government will have the funds resulting from taxes at existing rates, earnings of government corporations and accumulation of funds by GSIS and SSS. Provided total income of the economy increases according to the Mission's projection and provided some other favorable conditions, including better tax collection, are met, the Mission expects total government revenue to aggregate somewhat above ₱10 billion over the five-year period. This would still leave a gap of around ₱2.8 billion. A part of this gap will be financed by direct government borrowing abroad. The Mission has assumed that out of the total net capital inflow of $800 million (or net "cash" inflow of $600 million) as much as $300 million would represent public sector use.

SOURCE OF GOVERNMENT FUNDS, 1962–66 (Millions of pesos)

Taxes at existing rates	9,200[a]
Surpluses of government corporations	410
Increases in assets of GSIS and SSS	510
Total Domestic	10,120
Total Expenditures	12,895
Gap	2,780
Financing the Gap	
Borrowing abroad	1,050
Remaining gap	1,730[b]

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[a] Includes ₱150 million from the margin fee on the assumption that it will remain in effect through fiscal 1963. Without the margin fee, the total would drop to ₱9,050 million, and the gap would increase to ₱2,980 million.

[b] ₱1,880 million without the margin fee (see [a] above).

25. The Mission believes that there is a scope for bond sales to the private sector other than the banking system. Conditions for this are financial stability and a competitive level of interest rates on government bonds. We assume that the first condition will be met—indeed this assumption underlies the whole program; and we urge the government to adopt the second, i.e., to make government bonds attractive for private investors by raising the interest rate. If this is done, we would project the proceeds from the sale of government bonds to the private sector other than banks at ₱150 million. This compares with only a nominal amount in the preceding five years.

26. For all practical purposes, the Mission rules out any large amount of government borrowing from the banking system. Given the likely demand for commercial credit by the commodity producing sectors and by the trade, and given the limits imposed on total bank credit by the need to build up foreign exchange reserves and to avoid inflationary increases in money supply—the scope for government borrowing from the banks is severely restricted if not non-existent.

27. This leaves an increase in taxes as the main source of additional government revenue. The Mission believes that the scope for increased taxation is large in the Philippines. Philippine government revenue as a proportion of gross national product is very low compared with other less developed countries. The average ratio for the last five years is 10% in the Philippines compared to more than 20% in Burma, Ceylon and Taiwan. Moreover, the over-all structure of taxation is such that revenue receipts are not sufficiently responsive to increases in income, which implies that revenue will fail to keep pace with GNP, unless new tax measures are taken. Given the expenditure problems which the government faces, this would be disastrous.

28. The Mission has provisionally suggested as a minimum target for additional taxation the sum of ₱1,500 million for the period 1962–66. (If the margin fee does not remain in force through fiscal year 1963, the sum would move up to ₱1,650 million.) If this target is achieved, tax revenue in 1966–67 would amount to 14% of the estimated GNP. Even after achieving this target, the Philippine tax effort will remain modest compared to neighboring Asian countries which have lower per capita income. Seen in this perspective, the target appears realistic. If the Philippines implements this goal, it will be demonstrating a national determination to bear sacrifices in the pursuit of economic and social progress.

29. The necessary tax reform must be preceded by thorough investigation. Nevertheless, the Mission has some suggestions which the Government may wish to consider even while the investigation is in progress. The Mission refers specifically to export taxes on selected commodities. Exports will be earning extra profits as a result of the devaluation, and a part of this windfall gain should be captured by the public sector. We suggest differential export taxes rather than a uniform export tax on the ground that the latter is detrimental to an appropriate allocation of resources. Large expansion in the export volume of sugar (beyond that for the U. S. market) and logs—and probably of abaca and copra—is likely to yield returns to the national economy lower than equivalent increases in exports of other agricultural, mineral or manufactured products. Also, there are very strong economic and social grounds for much higher taxes on real estate—both urban and rural. We would suggest that with better enforcement, faster progress on land surveys and registration, and an increase in rates, the yield of this tax may be increased substantially. Another obvious possibility for increased revenue is a higher tax on gasoline. At 8 centavos a liter, the Philippine gas tax is among the lowest in the world. Further there is scope for increased yield of the personal income tax. The Mission recommends an upward revision of the rate structure as well as vigorous steps to reduce illegal evasion. Finally, it may prove necessary to raise the corporate tax rate. The present rate is low. This low rate would be vindicated from the economic point of view if a large part of post-tax profits were reinvested. Available evidence indicates that this did not happen in the past. If investigation should reveal that reinvestment continues to be low even after the devaluation is completed and financial situation stabilized, the rate of corporate profit tax should be raised.

Conclusion.

30. The investment program which the Mission suggests is large. While a substantial provision has been made for foreign financing, the largest part of the burden will have to fall on the domestic economy. This is unavoidable. Furthermore, in view of the necessary increases in government outlays—direct public investment, current expenditures, capital transfers—the success of the developmental drive will depend on the tax effort. The required increase in taxes can and should be arranged in a way which would affect primarily if not exclusively the income groups which can afford a

higher tax burden. Inflationary financing of development would defeat its own purpose. It would shift the burden to the lower income groups when the very purpose of the investment program should be to lay a foundation for a sustained improvement in their welfare. This is particularly so in view of the existing inequality in income distribution which is a disturbing feature of the Philippine scene. Inflationary financing would also lead to distortions in the pattern of investment and it would reduce capital inflow and thus curtail the aggregate amount of resources available for investment. If the government and the society are not prepared to stand a considerably higher tax burden, then the investment program should be to cut back.

31. On the other hand, if a savings and investment effort of the suggested magnitude is made, the Philippine economy could look towards a brighter future. To be sure, a further upward shift in the rate of investment and savings will be necessary in the later 1960's, and this will call for a new major effort. However, the burden will be proportionately less. The economy will have made a significant step forward in raising the income level. An industrial complex oriented towards intermediate and eventually producer goods industries will be under way. Plentiful agricultural resources will begin to be used in a rational manner. There is a possibility—indeed a likelihood—that with economic improvement and urbanization the rate of population growth will eventually slow down. Above all, there will be an increase in confidence that the structural problems of the Philippine economy are susceptible to solution.

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APPENDIX II

TO THE

STATE OF THE NATION MESSAGE

OF

PRESIDENT DIOSDADO MACAPAGAL

JANUARY 22, 1962

ECONOMIC GROWTH IN THE PHILIPPINES:

A PRELIMINARY REPORT PREPARED BY
THE STAFF OF THE IBRD

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I. INTRODUCTION

1. This report summarizes the findings and recommendations of the Economic Mission of the International Bank for Reconstruction and Development which visited the Philippines in the summer of 1961. It will be followed by more detailed analyses of the major sectors of the economy. As these analyses are completed, some modifications of the targets suggested here may prove necessary. However, the essence of the problems which the Philippine economy faces, and the broad lines of their solutions, are clear enough to warrant the submission of this preliminary report to the Philippine Government.

2. The recommendations of the Mission are summarized in the form of development objectives and suggested means to achieve these objectives during the period 1962–66. The nature of the recommendations should be clearly understood. No mission from outside could hope to produce a program which would deal adequately with all the problems which an economy faces; only the national government can approximate this goal. This report presents the Mission's assessment of the development effort which seems necessary for the Philippine economy during the next five years. The detailed targets essentially illustrate the general conclusions of the Mission about investment priorities; but only a further and more careful investigation of particular investment projects can provide the substance of an investment program to meet Philippine development requirements. Furthermore, changing circumstances necessitate revisions in both the output and investment targets; and recommendations which are valid today may prove wrong tomorrow. For all these reasons, the program suggested here represents only an over-all framework which the Government may wish to consider in devising its own economic plan and the machinery for its execution.

II. STATEMENT OF THE PROBLEM

3. The postwar achievements of the Philippine economy have been considerable. Rehabilitation from the heavy damage of the war was essentially completed by the late 1940's, when the aggregate prewar output level was restored. The economy was stabilized in 1950 and 1951 after a period of heavy drain of external assets. The prewar per capita income level was regained probably around 1953–54; since then, total national production has risen at an

average annual rate of 5–6% and per capita output in excess of 2.5%. Judge by comparison with most underdeveloped countries in Asia, this is a fairly swift rate of advance.

4. The major structural change since the war has been the growth of domestic manufacturing. Organized manufacturing (5 workers and over), which was limited to processing of agricultural products before the war, expanded more than 10% per year during the 1950's. By 1960, it had become a significant segment of the economy, accounting for 12.7% of the net domestic product that year.[1] A vigorous entrepreneurial class has emerged and the nucleus of a skilled labor force has been formed. The industrial base is still narrow; it consists essentially of a range of consumer goods' industries heavily dependent on imported raw materials. The direct contribution to employment is small—less than 3% of the labor force in 1960. Nevertheless, the foundation has been laid for future industrial growth. This future growth, however, will necessarily embrace costlier and more complicated manufacturing operations than in the past.

5. The established basis for manufacturing expansion is far from being the only asset with which the Philippine economy faces the future. Natural resources are rich and diversified. With suitable climate and wide variations in topography, the soil can produce, at low cost, an unusual range of food and agricultural raw materials for both domestic consumption and exports. A significant exception is wheat. Though diminishing, open spaces are still available for cultivation in Mindanao and other outlying islands. The mineral wealth includes sizeable known deposits of iron ore and non-ferrous metals; during the 1950's, mining output more than doubled. Petroleum exploration is under way, although with still uncertain prospects. The Philippine forests, even after ruthless exploitation in the postwar period, still provide the basis for fast growth of wood-processing industries. Perhaps most important of all, the educational level in the Philippines is high, much higher than in an average underdeveloped country, although the educational system remains more impressive in quantity than quality. The rate of literacy is 75%, and the number of graduates from technical schools and institutions of higher learning has exceeded, in the last five years, the capacity of the economy to absorb them at its past rate of growth.

6. The Philippine economy will have to utilize these assets to the maximum during the next decade to solve the problems it

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[1] Computed on the basis of relative prices expected to prevail after the assumed exchange rate of ₱3.50 to US $1 becomes fully applicable. At relative prices existing in 1960, the share of manufacturing in net domestic product is estimated at 15.1%.

faces. Five of these problems should be singled out: high and possibly accelerating rate of growth of population and of the labor force; low savings rate which may be further depressed in the transition from the old to the new exchange system; vulnerability of the Filipino external accounts both over the medium term and over the long run; considerable backlog in overhead investment; and inequality of income distribution which particularly affects the rural population of the Philippines.

1. *Population Growth*

7. The Philippines belongs to a group of countries with extremely high rates of population growth. The rate of increase was already high—and accelerating—before the war. Between 1903 and 1918, population growth amounted to 1.9% per year; it rose to 2.2% in 1918–1939. In the postwar period, the improvement in health standards has drastically reduced the death rate. The registered death rate is an understatement, but over time it can be accepted as a fair indication of the trend.[2] The rate fell by 18% between 1946–50 and 1951–55 and then by 22% between 1951–55 and 1955–60. On the other hand, most of the evidence suggests that so far there has been no downward movement in the birth rate. Consequently, population growth has been sharply accelerated, with no obvious indication that this process has come to an end.

8. While the underlying trend is clear, field surveys and analytical work are not yet sufficient for a precise determination of the current rate of population increase. The intercensal rate 1948–1960 (3.18%) is not a guide because the 1947 census was unreliable. Furthermore, the past rate of increase does not take into account the recent trends in the death rate and the likelihood of further decline; the past rate also disregards the influence on the birth rate of changes in the sex-age composition of the population. Equally strong objections apply to using a rate calculated from registered deaths and births. As in most underdeveloped countries, both are grossly understated, with the possibility that births are understated more than deaths.[3]

9. After weighing the available evidence, the Mission believes that the rate of population growth in 1960–65 will not be less than 3.25% per annum, and may well accelerate to 3.4% in the second half of the 1960's. The underlying assumptions are that the crude birth rate will remain essentially unchanged 48 per 1,000 of population in 1960–65[4]—and that the crude death rate will tend

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[2] If anything, statistics on registered deaths tend to understate the decline in the death rate because the reporting of deaths probably has improved over time.

[3] See Basilio Aromin, *The Trend of Mortality in the Philippines 1903–1960*, The Statistical Reporter, July 1961.

[4] This is equivalent to the "age-sex adjusted" birth rate of 53.07 per 1,000 women aged 15–44, as estimated by the UN–Government of the Philippines, *Population Growth and Manpower in the Philippines*, New York 1960, p. 45.

to drop from an estimated average of 18 per 1,000 in 1955–60 to 16 in 1960–65 and to 14–15 in 1965–70. This trend in the death rate is equivalent to a rise in life expectancy at birth of 2½ years in each two succeeding five-year periods (starting from 47.5 in 1955–60), compared to an estimated increase of one year per annum in the period 1945–60.[5]

10. It is perfectly plausible to argue that the above estimate is an understatement. It may be that the current rate of population increase is as high as 3.5%. The actual death rate may be lower than estimated above,[6] and its future decline may proceed faster than anticipated. But whatever the exact numbers, it must be assumed for purposes of economic planning that one can not safely assume less than 3.25% in the early 1960's and 3.4% in the late 1960's.

11. The economic implications of the above are far-reaching. The rapidly rising number of children implies heavy expenditure on child care and education. There is a rapidly rising number of persons of working age, and this means a heavy investment in productive facilities to avoid increasing unemployment.

Past and Projected Increases in School-Age Population and in Labor Force, 1955–1970

	1955	1955–60 Annual Average	1960	1960–66 Annual Average	1966	1966–70 Annual Average	1970
Elementary School Age Population (7–12)							
Number (in millions)	3.9	....	4.5	....	5.4	....	6.4
Average Annual Increase (in thousands)		109	——	150	——	246	——
Annual Growth Rate		2.6%	——	3.1%	——	4.3%	——
Labor Force, including 10–14 Age Group							
Number (in millions)	9.2	....	10.6	....	12.4	....	14.1
Average Annual Increase (in thousands)		276	——	319	——	409	——
Annual Growth Rate		2.8%	——	2.7%	——	3.1%	——
Labor Force, including 10–14 Age Group							
Number (in millions)	8.6	....	9.9	....	11.9	....	13.5
Average Annual Increase (in thousands)		257	——	331	——	387	——
Annual Growth Rate		2.8%	——	3.1%	——	3.1%	——

SOURCE: Appendix Table 1. Population data are derived by using model life tables. As indicated in the text. Labor force participation rates for 1955 are the rates used in the UN–Government of the Philippines study, op. cit. Participation rates for 1960, 1966 and 1970 are derived from the October 1960 PSSH Survey as applying to population not in school, adjusted for seasonal variations.

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[5] The method used in the projection is the "component method", where survival ratios are applied to the population within five-year sex-age groups. The survival ratios are obtained from model life tables (1960–65 $^{o}e_{o} = 50$, 1965–70 $^{o}e_{o} = 52.5$).

[6] The registered death rate in 1960 was 7.7 per 1,000. Even if it is assumed that the degree of under-reporting of deaths is the same as that of births, and that the actual birth rate is 48 (compared to the registered birth rate of 29), the actual death rate would work out around 13, yielding a 3.5% rate of population growth.

12. The yearly increment in elementary school-age population will be around 150,000 in 1960–66 and 250,000 in 1966–70 compared to 110,000 in 1955–60. The yearly job requirements will exceed 300,000 and 400,000 in the next two periods, compared to 275,000 in 1955–60. The annual rate of growth in the labor force—excluding the 10–14 age group, where the employment problem is less pressing—is projected to accelerate from 2.8% in the recent past to 3.1% in the future.

13. The employment problem is not limited to the expected increase in the labor force. There is a large pool of unemployed and visibly under-employed workers in the labor market, in addition to disguised unemployment in agriculture. On the basis of the latest available PSSH figures,[7] (October 1960), it is estimated that the number of fully unemployed amounted to 670,000 or 6.3% of the labor force.[8] The visible under-employment—people working less than 40 hours a week—was about 1,240,000 or almost 12% of the labor force.[9] If the visible under-employment is expressed in terms of man-years, and added to the fully unemployed, the total unemployment equivalent is of the order of 1,035,000. The view is widespread in the Philippines that this is an underestimate and that full employment exceeds two million.

2. *Savings*

14. The only solution to the employment problem in the Philippines is an increase in the rate of investment, and a consequent acceleration of economic growth. Foreign borrowing can help to finance this, but it is obvious that capital accumulation will have to depend mainly on the domestic effort. In this context, the critical variable is the national savings rate.

15. The official national accounts indicate an extremely low rate of investment and savings—8.4% and 7.4% of GNP respectively in 1960. These rates understate the real magnitudes of capital formation and savings. As a study prepared in the Philippines has shown,[10] the official accounts contain an underestimate of construction activity and they also understate the actual cost of durable goods. Benefiting from the material supplied by the Philippine authorities, the Mission has attempted to take account of these understatements and has arrived at a tentative conclusion that the gross investment rate in 1960 was close to 13% and the gross savings rate somewhat less than 12%.

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[7] Philippine Statistical Survey of Households.

[8] Derived by adjusting the PSSH unemployment and under-employment data to the new estimate of the labor force.

[9] Derived by adjusting the PSSH unemployment and under-employment data to the new estimate of the labor force.

[10] Ruben F. Trinidad, *Some Proposed Improvements in the Estimate of Capital Formation in the Philippines.* The Statistical Reporter, April 1960.

16. Despite this adjustment, both the investment and savings rates must be considered insufficient to assure long-run growth in excess of population increase. There are special reasons why, with a probable recent investment rate of less than 13%, the Philippine economy was able to achieve a rate of growth as high as 5–6%. These reasons include the growing utilization of unused capacity in agriculture, the running down of the capital stock in transport facilities, the relatively low capital cost of the established industries. These special factors will lose their force in the years to come. The economy has reached a stage of development in which the industries to be established will have, on the average, a higher capital intensity. The backlog in transportation must be made up. Investment in social services—which do not immediately increase output—has to be stepped up. In toto, the Philippine economy must mount a much higher effort compared to the past if a solid basis is to be created for a sustained economic growth in the future.

17. There are additional factors which make the investment and savings problem serious. The rates in the past were achieved under somewhat special circumstances. Economic controls favored the organized manufacturing sector. Manufacturers were able to import capital goods and raw materials at the official rate of exchange (₱2 for US$1), while their selling prices for finished goods, protected by severe import restrictions, were much higher, probably equivalent to the present effective free rate (₱3.50 for US$1). The result was an extremely high level of manufacturing profits. The high profit rate provided powerful incentives for investment in manufacturing; at the same time, it enabled the manufacturers to borrow easily from commercial banks. The counterpart was a lower level of profits in the export sector of the economy, which was selling its products at the official rate of exchange.

18. The past system of controls—open to abuse, favoritism, corruption, and capital flight—is now being dismantled, accompanied by currency devaluation. The immediate effect of the transition from controls and the managed exchange rate to a free market mechanism and a new exchange rate, has been to squeeze the profits of industries that use imported raw materials. This profit squeeze, coupled with the uncertainties regarding future cost-price relationships and government economic policies, has dampened industrial investment. In the last two years, the rate of growth of the economy has slackened to about 4% or less—considerably below the postwar average. While the revival of investment activity

in the export sector of the economy appears to be under way, it is questionable whether this increase will quickly and fully offset the decline in manufacturing. Over the longer run, there is no doubt that the devaluation will prove beneficial for the Philippines by raising exports, stimulating basic industries at home, compelling the existing manufacturing plants to improve efficiency, and reversing the capital flight. Over the medium term, however—while income distribution is adjusted to the new exchange rate—there is a danger that the over-all level of investment may fall. This the Philippine economy can not afford. Strong and determined government efforts are necessary if the tempo of capital accumulation is to be maintained and particularly if it is to be substantially accelerated.

3. *External Accounts*

19. The export structure of the Philippines, while dependent exclusively on primary commodities, is more favorable than in most underdeveloped countries. Exports are diversified, covering a wide range of products. Nevertheless, notwithstanding the expected beneficial impact of the devaluation, the external economic position is vulnerable both over the medium term and over the long run. And since exports and other current receipts account for 20% of GNP, [11] their development will have considerable effects on over-all income growth and on the rates of savings and investment.

20. The Mission is not optimistic regarding future prices for coconut products and abaca, at least over the medium term. [12] The world oils and fats market, although not under such pressure as in some other primary products, is weak and unlikely to improve in the foreseeable future. A large expansion of soyabean exports from the United States and of groundnuts from Africa is in prospect. Prices have already fallen substantially from the 1960 average and in the mid-1960's may well be even lower than the present depressed level.

21. Vegetable oils in general are exposed to the threat of technological changes which reduce their use in some manufacturing processes. Paradoxically, there is a chance that over the longer run this progress may turn out to help coconut products vis-a-vis

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[11] This proportion is computed on the basis of relative prices expected to prevail after devaluation becomes fully applicable, i.e., valuing current earnings ($724 million in 1960) at the 3.50 rate.

[12] In 1960, these two commodities accounted for 40% of total export receipts and 29% of total current account earnings.

other oils, in view of the preference for coconut oil in some uses, but this must remain uncertain.[13] In the case of abaca, as far as can be seen, the effects of technological advance are one-sidedly adverse. The increasing use of cheaper synthetic materials in rope making and competition from sisal for some purposes, will probably drive down the abaca price from the high level of the late 1950's.

22. There are three implications of these expected price movements. First, the Philippine terms of trade in the next five years are likely to be worse than in the second half of the 1950's. This implies that in the future, real income will grow less fast than real output. Secondly, foreign exchange earnings from coconut products and abaca are unlikely to increase, since the rise in volume will be roughly offset by declining prices. Thirdly, the Philippines cannot expect to solve their long-range foreign exchange problem by relying on expansion of these two commodities. They will remain an important part of the foreign trade structure and their contribution to income should not be minimized; but a dynamic growth in external earnings, which is a necessary condition for a rapid long-run growth in national output, will have to depend on the expansion of other export commodities—including manufactured products.

23. It is also clear that from the long-run viewpoint, sugar, the second largest export commodity,[14] is not a dynamic element in the foreign trade structure. Over the next several years, it is likely that the Philippines will substantially expand sugar sales to the United States. This will alleviate the foreign exchange problem, although the exact amount of incremental proceeds from sugar is uncertain.[15] In the longer run, however, the Philippines will have to count with a normalization of the world sugar market. And looking into the 1970's, the economy must prepare itself for the time when its privileged position in the U.S. sugar market will no longer exist.

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[13] In the United States, a stagnation in per capita utilization of coconut oil has resulted from two opposite trends. On one side, there has been a rapid decline in soap-making under the impact of synthetic detergents, and a substitution of other oils in margarine and shortening manufacture. On the other side, there has been an equally rapid increase in frozen foods, confectionery and bakery goods manufacture, and increased use of coconut oil in the manufacture of fatty acids, glycerine, chemicals, resins, and synthetic detergents themselves. It is conceivable that once the substitution process in soap making, margarine, etc., is completed, the areas of expanding usage will result in a rapid increase in the total utilization of coconut oil. The same phenomenon may occur in Western Europe, but only after a substantial lag because the substitution factor is still very large there. The difficulty in projecting a trend of this sort is that technological progress may ultimately enable other oils to be substituted for coconut oil in rapidly growing uses.

[14] 25% of export earnings in recent years.

[15] It will depend on the non-quota quantity (491,000 short tons in 1961) and on the price at which this quantity is sold (currently 5.5¢ per pound, the same as applied to the quota). The non-quota quantity and the price for both quota and non-quota sugar are subject to change in accordance with U.S. regulations.

24. The problem of adjustment is not limited to sugar. There is the preferred position of Philippine coconut oil in the U.S. market and preferential U.S. import duties for all other Philippine exports. This preference will gradually decline and ultimately disappear in 1974. It is true that the preferential treatment of U.S. products sold to the Philippines also will be reduced, and at a faster rate; this will strengthen the position of the import-substituting industries in the Philippines. But this does not eliminate the problem entirely. If the supply of foreign exchange remains a bottleneck in the country's economic development—and this is likely—the Philippines will have to obtain a firm foothold in the U.S. market, in as wide a range of products as possible, before the privileged position expires.

25. Finally, there is the problem of adjusting to a decline in U.S. government expenditures in the Philippines. The expenditures now supply 13% of current-account receipts. The dollar amount will fall somewhat after the peso devaluation because some expenditures are incurred in pesos. And over the long run, the veterans' pensions—which in 1960 represented $60 million out of a total of $82 million of U.S. government expenditures—will taper off, while the amount of military spending cannot be forecast with certainty. The decline in all these items will affect not only the foreign exchange position, but also the flow of savings in the economy; this is particularly the case with veterans' pensions.

26. There are offsets to the expected reduction in foreign exchange earnings. The prospects for exports of minerals are good, particularly in view of the devaluation. Sales of plywood are likely to expand quickly. New primary exports, principally corn, will develop.[16] There are prospects for substantial import substitution, both in agricultural products and in manufactures. But all these offsetting possibilities will require large amounts of capital, as well as a determined policy of export promotion and import substitution. Any delay now will cost the economy dearly in the future in the form of a sluggish income growth or balance of payments crises or, mostly likely, both.

4. *Income Distribution*

27. Inequality of income distribution is one of the most striking features of the Philippine scene. No studies have been made of changes in income distribution over time. However, public opinion in the Philippines and outside observers both are convinced that if any changes have occured, they have been in the direction of increasing income disparities.

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[16] The net result of offsetting movements is an export projection for 1960–66 which indicates an annual rate of growth in export receipts of around 3%.

28. The 1957 PSSH Survey found that 10% of families in the highest income brackets received 45% of total personal income. Another survey has shown that average cash earnings of wage and salary workers in 1956–57 were substantially below the minimum wage prescribed by legislation. The state of rural families and farm workers is the worst because of both the low productivity of Philippine agriculture and of the land tenure system, which has been the cause of the long history of agrarian unrest in the Philippines.

29. The last detailed count, in 1948, indicated a rate of tenancy of at least 50%. It is doubtful that any improvement has occurred since; land reform legislation has been applied half-heartedly and with meager results. Many of the large farms are ownership units, operated in small parcels by tenants; consequently, the disincentive effect of tenancy is not offset by economies of scale. The failure of Philippine agriculture to show increased productivity of food crops must be related, to a large extent, to the land tenure system.

30. The inequalities in income distribution are only partly corrected by the fiscal system. The ratio of tax revenue to gross national income is around 10%, which is lower than in other Asian countries—despite the fact that the Philippine per capita income is significantly above the Asian average. A low tax ratio limits the scope to redistribute income, although considerable outlays on education and health do have some redistributive effects. Even more important, from the viewpoint of economic growth, a low tax ratio limits the ability of the Government to capture resources for purposes of capital formation.

31. It is possible to argue that the existing concentration of income and wealth can be converted into a source of strength for economic development. But this can happen only if substantial part of excess income is mobilized for investment rather than used for extravagant consumption. The challenge facing the Philippine Government is the necessity for a development program that will require substantially larger capital accumulation than in the past and for economic policies that will effectively mobilize and utilize Philippine savings capacities for financing investment.

III. PROSPECTS AND PROGRAMS FOR MAJOR SECTORS

32. The Mission's proposed outline of a development program has not been based only on the need to solve the structural problems described in the preceding chapter. In estimating the over-all magnitude and the directions of the required development effort, the

Mission has had two additional sets of considerations. First, the Mission has attempted to stay within the limits of feasibility, as determined by the prospective supply of resources, financial and human. Secondly, an attempt has been made to analyze the development prospects of the major sectors of the economy. This latter investigation has included a review of both demand prospects and production possibilities in the main sectors. In effect, the development program has been built from below, i.e. on the basis of sectoral analyses; the claims of each sector have then been adjusted, on the basis of rough notions of priority and returns to the economy, in order to stay within the ceiling dictated by the feasibility criterion.

33. This chapter contains an abbreviated version of the Mission's sectoral findings. The following fields are covered: agriculture, manufacturing, mining, transportation, power and social services. The analysis is focussed on development prospects, policy measures which should be undertaken and expenditure levels necessary to achieve the development objectives. Most of the sectoral analyses contain explicit projections of required investment outlay and of feasible output growth. These projections are summarized at the end of the chapter in the form of a growth model for the economy in the period 1962–1966.

A. AGRICULTURE

The Background

34. Agriculture, fishing and forestry together account directly for around 34% of the Philippine national product, for some 60% of exports, and for 61% of total employment. If the value added to agricultural products by processing, transport and trade is also counted, the contribution is substantially higher in all respects. Agriculture has an immense additional potential in the Philippines. And, because of the sector's great importance to the total economy, it is essential that this potential be used effectively, if the chronic social and economic problems of the country are to be mitigated.

35. The past record of performance is a mixed one. Overall, the growth rate in output has been around 4% since the mid-1950's but this is heavily influenced by the spectacular and ill-conceived rise in forestry output. In the basic domestic crops, mainly rice and corn, production growth has been less than 4% per year since the mid-50's; this is entirely the result of increased acreage. Among the traditional export crops, sugar alone has shown increased yields. Coconut output has expanded with increased plantings, while abaca production has declined with a drop in acreage. In total the export

crops have grown by about 2.5% per year since the mid-50's. Output of livestock products has averaged only 4% per year over the last 5 or 6 years, although prospects for increased poultry and hog production are excellent.

36. Fish production has more than doubled in the last 10 years. The great marine fish resources are still scarcely touched, however, and some 500,000 hectares of fresh-water and mangrove swamplands are available for additional development of fishponds. Earnings from forestry and forest products have skyrocketed since World War II, though at a cost which is beginning to resemble a bargain sale of the Filipino birthright. The combined effects of *kaingin* farming and "legal" slaughter of the forest include widespread erosion and a reported deterioration in climatic conditions. Every recent study of forestry has stressed this alarming and irresponsible destruction.

37. Along with this spotty production record, the rural Philippines has a long history of social unrest, resulting from underemployment, extreme inequalities of income distribution, and from overcrowding and a high percentage of tenancy in areas such as Central Luzon. The land reform program initiated in the mid-1950's has moved extremely slowly. Some help has been provided by legislation protecting the rights of the tenants, and by resettlement to less crowded areas—particularly to Mindanao. But a serious problem remains. Government efforts to help provide better agricultural credit facilities have been successful thus far in the case of the Rural Banks—which provide credit on a commercial basis to farmers in relatively sound financial condition. But the Agricultural Cooperative and Credit Financing Administration, and its subsidiary cooperative associations have suffered seriously from mismanagement. However, present efforts to rehabilitate the organization show promise of success.

38. For the future, there are a number of favorable elements. The change in the exchange rate will undoubtedly stimulate a higher rate of output in a number of enterprises both for the home market and for export. As mentioned in Chapter I, the outlook for copra and abaca on the world markets is not bright while sugar is heavily dependent on decisions by the U.S. on the allocation of the former Cuban quota. However, rice, corn, native tobacco, livestock products, and a number of tree crops all have prospects for more rapid growth than the rate achieved in the last 5 years or so, especially if more effective government support is provided in the future.

A Suggested Public Program

39. Among the essential supporting services of a well-conceived agricultural public program are: (*a*) research, (*b*) extension, (*c*) credit, and (*d*) marketing. One important research development has been the recent establishment of the International Rice Research

Institute at Los Baños, with financial and technical aid provided by the Ford Foundation and the Rockefeller Foundation. If the history of similar institutes in Latin-America repeats itself, many of the technical problems of rice production will be solved within a decade. Dissemination of the Institute's finding to Filipino farmers will depend on the Government, and it is none too early to begin expanding and improving the Bureau of Agricultural Extension and correlating its work with that of the Institute.

40. A considerable increase in public research and extension work on other crops is also needed. The Mission recommends that present services be strengthened by: (*i*) making greater efforts to attract more and better qualified people, both Filipinos—and, as necessary, more foreign experts; (*ii*) providing more ample transport facilities to field staff; (*iii*) seeking the cooperation of private enterprises and helping to coordinate the results of research work being done by commercial agricultural firms.

41. Agricultural credit is peculiarly critical because, if credit is available on favorable terms, it eases the stresses of inadequate marketing and supply distribution systems and facilities educational work with farmers. Despite a half-dozen public agricultural credit agencies, probably four-fifths of the farm credit is supplied from private, mostly usurious, sources. The growing network of rural banks has partially compensated for the deterioration of ACCFA, but much remains to be done in establishing adequate and reasonable farm credit. The Mission recommends that public funds for the rural banks and for ACCFA be increased from the total of around ₱100 million in the past 5 years to ₱200 million in the next 5-year period.

42. On the side of marketing and price stabilization we suggest that public storage facilities be constructed and that funds be set aside for building up reserve stocks of rice and corn. As a rough approximation of the funds that might be required for these two purposes, we have allowed ₱60 million in the proposed public sector program.

Irrigation and Drainage

43. In the main, water resources have been developed by fits and starts under strong political influence. Maintenance has been mediocre; water charges, although unrealistically low, have not been paid by many farmers; and research and planning have been relegated into the background. Drainage, an increasingly serious problem in some areas, has suffered from lack of vision and inadequate financial support. The Mission cannot recommend sizeable new irrigation projects until a basic study of water resources,

national in scope, is undertaken. Such basic research is costly but more economical in the long run than the haphazard programs of the past. Maintenance expenditures on existing irrigation works could be usefully increased, and there are several river control and drainage projects on which sufficient information is or soon will be available to warrant expanded outlays in the next 5 years. Capital expenditures on these purposes in 1956–60 were around ₱160 million (at constant 1961 prices). We suggest that for 1962–66 an allowance of about ₱210 million be made. Current outlays for maintenance and research work should be at least doubled—from about ₱25 million in the past to ₱50 million or even more in 1962–66.

Resettlement

44. In the last 5 years, some 22,000 families have been settled in public resettlement projects, at an average direct cost of approximately ₱1,500 per family. Many of these families came to the settlements on their own and have not yet been officially "approved" by the settlement agency (NARRA). Cumbersome procedures are involved in the official process, and far too high a proportion of the staff is in Manila instead of at the sites. But there is a nucleus of trained field officials which could be expanded substantially, given some reorganization and more attractive pay scales.

45. Because good uncultivated land is growing scarce in the Philippines, even in Mindanao, it seems highly desirable that it be developed as efficiently as possible. The continuing need to absorb workers on the land together with the social problems existing in Central Luzon strongly argues for an enlarged resettlement effort. Assuming that the necessary staff and management skills can be recruited, we suggest that a target of 75,000 families be set for resettlement in the period 1962–66. Assuming an average current cost of ₱2,000 per family, this would involve an estimated total cost of ₱150 million as against about ₱30 million in 1956–60.

Regional Development

46. The question of resettlement has obvious relevance to the broader questions of giving more emphasis to regional development. This emphasis, which is relatively new in the Philippines, is sound in principle, but the first two regions selected for the creation of development authorities—Mindanao and the Cagayan Valley—have extremely variant developmental potentials and should be approached with a different set of objectives. Mindanao (including Palawan and the Sulu Archipelago) is a huge territory which is still predominantly a rich frontier. The limited supply of choice land in

the Cagayan Valley, on the other hand, is already intensively cultivated and heavily settled; a high percentage of the remainder consists of denuded former timber land and rough, badly eroded areas that are no longer fit for cultivation. The potential of Mindanao for accelerated development is limited chiefly by a lack of imagination in assessing the magnitude of the costs and the prospective benefits, while the future of the Cagayan Valley lies largely in grassland agriculture, reforestation and better water utilization and control.

Land Surveys, Land Reform and Land Tax Policy

47. As a prerequisite of a sound land tenure and taxation policy, a considerable increase in land survey work deserves the highest priority. At present it is estimated that 80 per cent of agricultural land holdings have still not been surveyed or officially titled. Aerial photographic techniques might be used to reduce the backlog faster. We suggest increasing expenditures on this purpose from the ₱30 million spent in 1956–60 to ₱100 million in the next 5 years.

48. The established agencies for harmonizing landlord-tenant differences are deserving of the fullest support. Although expropriation procedures have not been entirely satisfactory in the past, the principle of reducing the number of large and generally inefficient landed estates, particularly in Central Luzon, has a firm economic, social and legal justification. A high-level study of the administrative machinery for carrying out expropriation should be instituted at an early date, but not at the expense of a curtailed land reform program. It is proposed that funds for this purpose be increased to about ₱35 million and that owners of expropriated property be reimbursed at the productive value of their land over a five-year period or longer, rather than immediately. For current government expenditures by the agencies responsible for tenancy conditions, we also propose an increase from ₱5 million in 1956–60 to ₱10 million in 1962–66.

49. The resistance to land reform might well be reduced with improvements in agricultural taxation. Agriculture is a haven for tax evasion. In 1960, total real estate taxes amounted to less than 6 per cent of direct local and national government tax revenues and probably most of this was on urban property. Only slightly more than 3 per cent of all personal income taxes was collected on agricultural income. The chief explanation for this is the sorry state of farmland records, which underlines the urgent importance of a land survey and title registration program in rural areas. Policy for taxing agriculture must distinguish between the economic

effects on land and taxes on earnings from land. Property taxes become a relatively fixed cost which, if they have any effect on taxpayers at all, tend to serve as a production incentive. A steeply progressive income tax, on the other hand, may become a disincentive to extend and intensify production. Property taxes are also more difficult to evade than income taxes.

Forestry

50. A firm and enforced policy of selective cutting of timber is becoming imperative. The public should be shocked into a realization of the consequences of continued suicidal forest destruction. A national forest police force of considerable size, an extensive educational program, training and employment of *kaingin* farmers and abandonment of short-term timber concessions are among the first requirements. A major effort on reforestation is also needed in areas now suffering from erosion. We suggest expenditures on these purposes be increased in 1962–66 to around ₱120 million, as against total public outlays on forestry of ₱35 million in 1956–60.

Subsidies

51. The paramount needs for extending the use of fertilizer are better research and demonstration work and more timely and larger supplies of credit. Fertilizer subsidies have a way of gravitating to those who least need them, they are expensive and they should be phased out in favor of expanded domestic production and distribution in private hands. The subsidy on Virginia tobacco will continue to be a national scandal until its demise, which should be now. It has cost the Government over ₱160 million in the past 5 years. We have allowed for a tapering off of the fertilizer subsidy in 1962–66 (30 million as against 50 million in 1956–60) but no further expenditures on the tobacco subsidy.

Community Development

52. The community development program in the Philippines has had considerable success in organizing "self-help" projects in the rural areas. It has also helped greatly to stimulate more active participation of village people in their own political affairs and marks a first step in the direction of creating badly needed, responsible local government. In view of these benefits expansion of this program seems desirable and we have allowed ₱30 million for the next 5 years, compared to ₱20 million in the past five.

Transportation

53. For any sizeable expansion of agricultural output, major improvements are required in the Philippine transport system, and

above all, in roads. The road program discussed in the section on transportation is in fact largely justified by its potential benefits to agriculture.

Rural Civil Works

54. The public sector program outlined in the foregoing paragraphs has important implications for providing employment in construction and maintenance activities which should help significantly in reducing rural unemployment and underemployment. The extent of this impact depends not only on the overall magnitude of the program but also on the capital-intensity of the techniques used. We suggest that whenever there is scope for increasing the labor component relative to the capital equipment used without significantly increasing costs or time required, that this be done. It seems likely that there are a number of possibilities for relatively labor intensive types of activity in small scale irrigation and drainage works, clearing land for resettlement, reforestation, community development projects, and the construction and maintenance of feeder and barrio roads.

Private Sector Investments

55. Identifiable investment by the private sector in agriculture during 1956–60 amounted to around ₱750 million, of which ₱110 million was in livestock inventories and ₱250 million in expansion of tree crops. The rest, consisting mainly of agricultural machinery and equipment is impossible to allocate by sector. In addition to these identifiable components, there was undoubtedly a substantial amount of investment of a "non-monetized" nature. An estimate made on the basis of a sample survey in 1956 put the amount for the year 1955–56 as high as ₱100 million in that year alone.

56. For the future, we would expect, that with the type of public program we have suggested and with the incentives provided by the change in the exchange rate, private investment will grow considerably. We have projected investments in livestock to double and a 50 per cent rise in private investment in tree crops. In the latter group, we would expect a relative shift away from investment in coconuts and abaca, and toward much greater investment in cacao, arabica coffee, rubber and citrus, all of which have a large domestic market. There are also good export possibilities for some of these crops. "All other" private investment in agriculture is projected to rise from ₱380 million in 1956–60 to around ₱800 million in 1962–66 (excluding non-monetized investment).

57. Among the other sectors where the biggest increase in private investment is foreseen are opening up new land for corn and livestock production. Both of these should grow at even more rapid rates than the past, given the high level of domestic demand, and the export possibilities to such countries as Japan and Hongkong. Investment in rice farming is also likely to expand, and it is possible that by the late 1960's, a modest export surplus could be achieved in this crop too. Other attractive opportunities for expanded investment lie in fruits and vegetables for which demand is increasing rapidly. Expanded investment in the construction of fish ponds and deep sea fishing vessels is foreseen, in view of the considerable possibilities which still exist for import substitution and rising domestic demand for fish. Heavier investment in forestry will be required if a rational forest policy is to be enforced and if there is to be the shift which should take place from the more accessible but overworked areas to the less accessible areas. (The recommended expansion of the public road system will also be necessary to achieve this.)

58. Chemical fertilizer is one of the principal keys to accelerated production and the goal for the next five years should be not less than a three-fold increase in fertilizer use. With substantial plant expansion, the domestic industry would be able to meet the bulk of these requirements. The private sector is capable of handling the distribution of fertilizers. As previously noted, however, public support through additional credit facilities will be required, if fertilizer use is to grow at the projected rate.

59. Taking public and private investment together, the total projected for the period 1962–66 amounts to just about ₱2 billion as compared to ₱1.0 billion in the 1956–60 period, while current public sector outlays in agriculture are projected to rise from ₱255 in the past to ₱515 in 1962–66. Current transfers including "investment" in tobacco inventories drop in cur projection from ₱210 million in 1956–60 to ₱30 million in the 1962–66 period. Capital transfers through rural credit institutions, on the other hand, rise from about ₱100 million in the past to ₱200 million in the future.

Output and Employment

60. With such financial support, and granted administrative improvement in the main public agencies in the agricultural field, it should be possible to increase the overall growth rate in agriculture, forestry and fishing to nearly 5.0 per cent during the next

five years, as compared to 4.6 per cent in the past five.[17] Projections by major sector are indicated below.

1960 Value of Output[17] (million)		Annual Average Rates of Growth	
		1955–60	1960–66
730	Rice	3.1	4.0
150	Corn	7.0	8.0
320	Other domestic crops	4.2	5.5
1190	Subtotal domestic crops	3.8	4.8
340	Coconuts	2.0	4.4
310	Sugar cane	1.5	3.5
75	Tobacco	12.0	....
95	Other commercial crops	0.5	4.5
820	Subtotal commercial crops	2.5	3.7
870	Livestock products	3.3	7.0
2880	Subtotal Agriculture	3.4	5.2
775	Forestry	10.2	3.2
420	Fisheries	4.4	6.0
4075	Total Agr., Forestry and Fisheries	4.6	4.9

Acreage Implications

61. To achieve these rates of growth we estimate that it would be necessary to bring under cultivation for crops alone approximately one million additional hectares in the period 1962–66, an average increase of 2.5 per cent per year over the estimated cultivated area of 7.7 million hectares in 1960. This compares with a rate of around 3.2 per cent in the past. This implies an increase in average yields for all crops of around 2 per cent per year as against virtually none in the past five years. A part of this projected rise in yields derives from our estimate that a larger number of coconut trees will come into maturity than was the case in the 1956–60 period. (A big increase in new plantings is thought to have started during the high prices of the Korean boom and to have continued through the high prices of 1959–60.) But a substantial part of the higher yields also derives from our expectation that use of better seeds and of fertilizer can be expanded substantially in the next five years. Finally, it should be noted that the projections of rapidly increasing livestock production also imply a considerable rise in land use for pasture.

Employment and Income

62. The employment effects of the projected expansion in output (and acreage) are likely to be substantial. After making allowances for increases in productivity per farm worker (which would be reflected in some reduction of underemployment) it is still estimated that employment could grow by around 3 per cent a year.

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[17] Both projected and past growth are calculated on the basis of post-devaluation prices, which greatly increases the weights of the export crops—particularly forestry. On the basis of 1960 prices—giving lower weights to forestry the overall growth rate was around 4.0 per year between 1955 and 1960.

This would create around 1 million new jobs in 1962–66 as compared with the rise of agricultural employment of around 800,000 in the past five years. The improved peso terms of trade for agricultural export crops and forestry would increase average real output per worker from ₱650 in 1960 (at 1960 prices) to ₱700 even without increased productivity. Although a drop in copra and abaca prices on the world market is expected, the change in the exchange rate for all export commodities will more than offset this. With the increase in productivity assumed here, output per worker would rise to around ₱780, a total increase over the actual 1960 level of just 20 per cent. Along with the measures designed to help redistribute agricultural income (resettlement, land reform and agricultural extension), there should be a significant improvement in the well-being of the average Filipino farmer by 1966.

B. INDUSTRY

General

63. After a decade of impressive development, Philippine industry is undergoing a readjustment because of alterations in cost-price relationships. These alterations, caused by the new exchange rate, will influence the pattern of future industrial growth and this can only be to the good. However, there is danger that the healthy process of readjustment may drag out and lead to a slowdown in the rate of industrial growth. Deceleration has in fact already occurred; in 1960, industrial output rose by about 5 per cent, compared to an annual average of more than 10 per cent, in 1955–59, and preliminary data suggest that sluggishness continued in 1961. The program proposed by the Mission aims at facilitating the readjustment faced by the existing industries and at speeding up the establishment of new industries. The net effect should be to raise the industrial growth rate and to bring about a major change in the industrial structure. The main areas of expansion are intermediate products for the home market and those industrial exports in which the Philippines have comparative advantage.

64. Philippine manufacturing is at present heavily dependent on imported inputs, although some improvements may have occurred in recent years. The direct import content of industrial output was estimated at around 30 per cent in 1960.[18] Such a high import coefficient in the Philippines can be explained by three factors. First, industrialization started at the finishing end of the manufacturing process with inputs supplied from abroad. There was

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[18] Imports valued at the rate ₱3.50 to $1 plus allowance for tariffs, trade profits, etc., expressed as percentage of gross value of output. If imports were valued at the past rate of ₱2 to $1, the import coefficient amounted to 17%.

already a market for consumer goods, capital requirements for an optimum size plant in assembly, finishing and light industries in general were lower than in more basic processes, and the technology was simpler than in the production of intermediate products.[19] Secondly, the Philippines lack raw materials resources for some of industries; and these industries happened to develop very fast in the postwar period (flour milling, cotton textiles, refining).[20] However, the third factor conducive to import dependence and directly related to the prevailing foreign exchange system was that raw materials and intermediate products were bought at the official rate of exchange of ₱2 to $1 through the import and exchange control mechanism, and were also exempt from all import duties under the "new and necessary industries" legislation. By contrast, sales prices of finished consumer goods at home, heavily protected by controls and tariffs, were geared to an exchange rate considerably in excess of ₱3 to $1. Cheap imported inputs militated against the domestic development of import substitutes in intermediate products; domestic entrepreneurs were maximizing their profits per unit of equity when they maximized the use of cheap imported materials.[21]

65. Devaluation will affect adversely segment of industry which is most dependent on imports. This includes textiles, footwear, paper products, rubber products, some chemicals and metal working industries. In most cases profits have been so high in the past that the cost-price squeeze only means that returns are brought to more normal levels. However, our analysis indicates that some firms may be wiped out unless there is rise in sales prices or a dramatic improvement of efficiency. On the other side of the spectrum are the export industries—sugar mills, plywood plants, coconut oil factories, some other food processing industries—which will earn extremely high profits. A similar situation exists in the relatively few industries that produce basic materials for the home market in competition with imports which have now become much more expensive than in the past (rolled steel, pulp, paper). The net effect of these mutually offsetting changes would be a sharp decline in aggregate profits if sales prices remained unchanged. Some price increases have already taken place.

Investment Program

66. The momentum of past industrialization was derived from substitution of imported consumer goods. As a result, and demand for imported raw materials and intermediate products has risen

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[19] G. Y. Itchon, *Speculation on the Course of Industrial Development*, Bulletin of the Central Bank of the Philippines, September 1961.

[20] Attempts are under way to develop cotton growing.

[21] Sixto K. Roxas, *The Basic Industries Act*, Manila Times, July 7, 1961.

considerably. In 1960, imports of unprocessed raw materials amounted to $60 million, imports of semi-processed products $250 million and supplies $55 million. This is the main field for import substitution in the future. In addition, import substitution possibilities still exist in the consumer goods field, although they are becoming less significant. In the meantime, the country has acquired a considerable body of managerial experience which may now be used in more complicated manufacturing operations. Finally, the change in relative prices resulting from devaluation will provide a powerful stimulus for production of intermediate goods.

67. The mission's program of investment results from a review of market and production prospects of each industry. The mission has interviewed a wide range of industrial interests and government officials and has examined existing ideas regarding future industrial possibilities. The investigation could not cover all industries and some industries could be analyzed more intensively than others. Consequently, the proposed program is no more than a general outline. Detailed project analysis is required before investment decisions are undertaken. Nevertheless, the suggested composition of investment clearly indicates the broad lines of the Mission's thinking.

Organized Manufacturing: Investment in Fixed Capital 1962–66[a]
(Net of replacement, millions of pesos)

Industry Group	Main Products	Investment Cost
Basic metals	Steel, aluminum, copper refining	785
Chemicals	Fertilizer, Industrial chemicals, synthetic fiber	332
Metal fabricating industries	Metal products, machinery electrical machinery transport equipment	240
Non-metallic minerals	Cement, glass	239
Food processing	Sugar, flour, meat packing	130
Wood and Cork	Plywood, veneer	125
Textiles	Balancing of the industry	100
Oil Refining	Petroleum products	100
Paper Products	Pulp and Paper	88
All others	Rubber products, tobacco products, beverages, printing	144
Total net investment		2,283
Allowance for replacement		686
Total Gross Investment		2,969

68. The main items of the proposed program are the establishment of the steel industry and the associated growth in metal working and machinery industries, sharp increase in fertilizer production, doubling of capacity of the cement industry, establishment of the

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[a] At post-devaluation prices.

aluminum industry, doubling of capacity of the plywood and veneer industry, large-scale expansion of pulp and paper production, rapid growth in food processing industries and rounding out of capacity in textile manufacturing and in petroleum refining. If the scheduled investment is carried out, the structure of the capital stock of Philippine industry will, in the span of five years, have changed dramatically in the direction of basic industrial processes.

69. *The steel program.* Aggregate steel consumption is currently at a level of about 360,000 tons per year. If the over-all investment program proposed by the Mission is used as a general framework for government policy and private planning, demand should rise fast, probably around 10% per year.

70. Two projects are currently being contemplated to meet domestic demand: an integrated operation at Iligan City in Mindanao which will produce electric pig iron for conversion into semi-finished and finished products with an initial capacity of 230,000 tons; and the Santa Inez project in Luzon which involves production of 110,000 tons of billets for use by the existing re-rollers as well as 20,000 tons of pig iron which will be used mainly by foundries now processing imported materials.

71. The capital cost of the Iligan plant is perhaps high by international standards for a comparable operation. This may be partly due to the high price quoted for capital equipment and also, to the relatively small scale of initial capacity, although the latter is not inherently uneconomic. The ultimate capacity will be some 100,000 tons larger, and the unit capital cost of this incremental capacity will in all likelihood be less than the initial outlay. The technological processes to be used—production of pig iron through heavy dependence on power as a partial substitute for the metallurgical coke traditionally used in the conventional blast furnace—have been successfull operated elsewhere.

72. The unit capital cost of the Sta. Inez project is much lower, which is partly explained by the relatively simpler operation that is contemplated. Estimates of production costs indicate a level competitive with imports at existing tariff duties. The main problems are in management and financing—the sponsors are allegedly trying to keep the equity proportion to a minimum and maximize the loan finance.

73. Given the composition of present demand for various kinds of steel, the two steel plants may involve some excess output of non-flat products (rods, bars and billets) and insufficient output of flats. This subject requires further examination, and the government may wish to reconsider the proposed composition of output. The Mission wants to underline the urgency of making the necessary decisions in this field.

74. The steel industry is quite new to the Philippines and its success or failure will have far-reaching consequences for the country's economic growth. It would be unfortunate if because of poor planning and inadequate technical and executive management, the domestic users of steel were compelled to pay high prices for this basic input. In particular, the prospects of domestic metal-working and machinery industries would be jeopardized. For all these reasons, the Mission suggests that the Government arrange beforehand for high level technical and perhaps managerial assistance from abroad, with sufficient authority to cope with the various technical problems that may arise both in the construction and in the operating stages of the two projects, including the timely training of personnel. Success or failure will be determined largely by the speed with which the industry attains the scheduled level and quality of marketable products. Successful execution of the present plans would open the way for further expansion of steel making capacity later in the decade.

75. *Metal-working and machinery industries* are already established in the Philippines, although on a modest scale. The Mission envisages their rapid expansion in the future. Growth of metal-working will be a necessary consequence of the establishment of the steel industry and of the scheduled increase in construction activity. In machinery, there are considerable possibilities for the increased production of agricultural equipment, refrigeration machinery, food processing machines, pumps, compressors, diesel engines, simple mining machinery and spare parts for general industrial machinery and equipment. Prospects are particularly bright for output expansion of electrical machinery and appliances, including electric motors, transformers, radio components, electrical automobile parts. The electrical machinery and appliances group has been one of the fastest growing industrial groups in the past five years; and the Philippines may have already acquired a comparative advantage in this field. The Mission would not be surprised if the Philippines began to export some electrical products and expand the exports of agricultural machinery. Finally, the proposed aluminum industry, based on cheap Maria Cristina power and imported bauxite, would yield a substantial surplus for export while the supply directed to the domestic market would not only substitute for imports but would also tend to stimulate the aluminum fabricating industries. The timing of the aluminum investment should be determined after careful scrutiny of the channels through which export sales would be made.

76. Next to steel, the costliest set of investment projects included in the Mission's program are *fertilizer plants*. Fertilizer use has grown rapidly in the last five years. It is the Mission's impression that Philippine agriculture has attained a stage at which a very

large and swift rise in the input of fertilizers is likely. Such jumps in demand have been encountered elsewhere. The Mission expects the use of fertilizer to treble by 1966; allowing for import substitution, this implies almost the quadrupling of existing domestic capacity. This, of course, does not imply that all the plants should be started right away; their establishment should be distributed over the period following the trend in demand with temporary gaps in supplies being filled by imports.

77. The projected growth of *cement* capacity (46 million bags in 1966 compared to 23 million in 1961) is related to the expected doubling of construction activity. A similar rate of increase in cement consumption was observed in 1955–1960, despite the fact that over-all construction activity expanded much less than that postulated for the future period. The projected capacity expansion may therefore turn out to be an underestimate.

78. *The plywood industry* of the Philippines had become the chief industrial exporter by the late 1950's. Prospects for further export expansion are favorable, primarily in the U.S. market, but modest quantities could also be sold in other areas. For the export drive to be successful, several difficulties have to be overcome. In the U.S. market, the plywood industry faces severe competition from Japanese exporters who process the Philippine timber. They obtain the Philippine logs at lower prices than the Philippine manufacturers, who have to pay a sales tax; this situation should at least be equalized and probably reversed by introducing an export duty on logs. Also, past errors in locating plants away from raw materials supply should not be repeated and adequate forestry concessions should be made available to domestic processors. A further major problem is that of financing. If efforts are made to find appropriate solutions, the plywood industry could continue its rapid expansion and attain by 1966, a level of output and exports double that of 1959–60. Even this may turn out to be a low target.

79. If plywood is one of the main hopes for industrial export expansion in the near future, another industry based on wood—*pulp and paper*—may turn out to be a major saver of foreign exchange through import substitution. The industry has started from the finishing end of the production process—manufacture of paper products—and has been integrating backwards, developing the production of paper, and, lately, pulp. The industry has technical problems, particularly in developing processes suitable for hard woods. The technical uncertainties have influenced the Mission in suggesting a more modest scale of investment outlay than the existing and prospective market demand would justify.

80. The scheduled investment in *textile manufacturing* is intended primarily to balance capacity in different segments of the industry, which will result in large foreign exchange saving. The primary emphasis is on investment in looms whose present capacity is inadequate in relation to the capacity of the spinning mills. As a result, large quantities of yarn and grey cloth are imported. There is also an allowance for further expansion of textile capacity in general in order to meet the prospective increase in demand; the implied target is that by 1966, 75% of total consumption of textiles will be supplied by domestic manufacturers. This ratio could be placed at a higher level if the industry succeeds in overcoming the diffiulties which it now faces; the latter result partly from large-scale smuggling of imported materials and partly from inefficiencies almost unavoidable in a period of rapid expansion.

Impact on Output, Imports and Employment

81. The Mission expects that the suggested investment program, together with better and more efficient utilization of existing capacity, would raise the organized industrial output in 1966 to a level 80% higher than in 1960. The higher output level, as is only normal during the process of industrialization, will lead to higher requirements for imported inputs. However, the Mission's preliminary and tentative projection of inter-industrial relations[23] indicates that the growth in imports for industry would amount to about 35% between 1960 and 1966. Further research may well show that this is an understatement. Even so, the rate of growth in imported inputs will be substantially below the rate of growth in industrial output. This relationship between the two growth rates is a result of the expected rise in the domestic supply of industrial intermediate goods, which will substitute for imports. It also reflects the anticipated expansion of agricultural raw materials for processing industries (rubber, cocoa, coffee, livestock products) which were formerly imported. The net effect of these developments would be a reduction in the import content of gross value of production from 32% in the late 1950's to 25% in the mid-1960's.

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[23] The projection is based on an industry-by-industry analysis of the expected changes in gross value of output, domestic inputs and imported inputs. Where applicable, gross value of output has been projected using income elasticities of demand, derived from the Philippine data or from other countries at a similar income level. Changing rather than fixed coefficients of imported inputs have been used, in order to allow for the expected changes in the domestic supply of raw materials and intermediate products. Three sets of historical input coefficients have been used as a starting point of analysis: (1) the input-output table for the year 1956, prepared by a private research organization in Manila, *Economic Development Consultants, Inc.*, who have generously supplied the Mission with their research papers; (2) coefficients derived from data for 1958, collected by the Central Bank and covering a large sample of firms; and (3) coefficients derived from data for 1958 and 1959, collected by the Department of Finance and covering all tax-exempt firms.

82. The direct impact on employment, while not large in relation to the expected growth in the labor force, will be much greater than in the past. Between 1955 and 1960, employment in the organized sector rose by only 50,000 people. For the period 1960–66, the increase is estimated at 100,000, giving a total in 1966 of around 350,000. The rate of growth in industrial employment should accelerate in the mid and late 1960's as new industries and supporting services start to cluster around the large production units contemplated in this program.

Problems of Industrial Finance

83. Total gross fixed investment requirements are substantial, almost ₱3 billion during the next five years. This compares with an estimated capital outlay of ₱1.2 billion in 1956–60 in post devaluation prices (at current prices ₱0.8 billion). Future investment in inventories in relation to sales will presumably be lower than in the preceding period, since past purchasing policy was influenced by expectations of devaluation. Aggregate financial requirements for industrial investment, fixed and inventory, (and including purchases of land), should be about ₱3.6 billion.

84. Mobilization of funds on this scale will be a major task. All sources of finance, domestic, foreign, private, public, will have to be tapped, if the investment target is to be met. Unfortunately no systematic research has been done about the past pattern of industrial finance.[24] Nevertheless, some general observations may be made.

85. Commercial banks provided considerable amounts of industrial finance in the past. This is unlikely to be repeated in the future. The expected reduction in profits to more normal levels will make it difficult to finance capital expansion out of short-term loans. This emphasizes the need for developing the long-term securities market. Despite encouraging advances in the development of mutual funds, the lack of an adequate capital market, particularly for industrial equities, is disappointing. The problem of widening the capital market deserves special study, but there are several steps that may be taken immediately. The Development Bank of the Philippines should make its lending to successful companies conditional on the sale of equity paper. Private lending institutions should be persuaded to apply the same principle. These measures may divert some resources from luxury real estate to industrial investment. They may also attract some export profits which may otherwise be invested abroad. Equally important, the sale of "blue

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[24] A pioneering work has recently been undertaken by David Cole, Institute of Economic Development and Research, University of the Philippines.

chip" securities will increase confidence in the stock market and will change its character from a gambling arena for highly speculative oil and mining stocks to that of an institution for financing industrial expansion.

86. The proposed private development bank should be set up as quickly as possible. The Mission wants to urge the authorities to continue to give high priority to the establishment of this institution. It would fill a gap which now exists. If its operations are conducted imaginatively, the Bank can be particularly helpful in setting up enterprises in new lines of production.

87. There is need for clear-cut policy regarding private foreign investment. The most recent pronouncements indicate that ambiguities and conflicting policies will soon be cleared up. Of decisive importance will be the actual decisions of government department and monetary authorities with respect to freedom of operations and disposal of profits of foreign-owned companies.

88. An illustrative pattern of industrial finance for the next five years is set out below:

	Million Pesos		% distribution	
Commercial banks		550		15
Foreign, total		850		23
Foreign loans (net of repayments)	500		14	
Other foreign (excluding reinvested profits)[25]	350		10	
Equity sales to non-industrial sectors and borrowing from other financial institutions[26]		200		6
Reinvested gross earnings[27]		1,150		32
Transfers from the Government[28]		850		24
		3,600		100

89. To the extent that these figures can be at all compared to past flows, the implication is that the proportion of investment financed by commercial banks will fall sharply, while the relative roles of the domestc capital market and of capital inflow from abroad will increase. It is also assumed that a larger proportion of earnings will be reinvested compared to what appears to have happened in the past. Nonetheless, a gap would in all likelihood remain which would have to be filled by government transfers of one kind or another. Such transfers have taken place in the past. In the period 1956–60, government direct investment and net lending by government financial institutions amounted to about ₱150 million (in current prices). In addition, the value of tax exemptions en-

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[25] New foreign direct investment ($30 million) and transfer of reparation deliveries.

[26] Includes mobilization of some of the Filipino capital expected to be repatriated from abroad.

[27] Includes reinvestment of earnings of foreign-owned companies.

[28] Includes ₱100 million for Iligan steel.

joyed by "new and necessary" industries amounted to ₱550 million (in current prices). Aggregate resources channeled through the public sector thus were around ₱700 million; at post-devaluation prices, this would be substantially higher.

90. The Mission's estimate of the size of the required government transfers in the future—₱850 million—is highly tentative and could easily turn out to be off the mark by several hundred million pesos. Net new foreign capital inflow may be larger than the assumed $30 million.[29] Also, the rate of reinvestment of profits may be higher than implied in the amounts of self-financing shown in the table. We have assumed a reinvestment ratio (proportion of profits after tax used for self-financing) of around 40% gross and 20% net.[30] These ratios are low by international standards.[31] However, all the available evidence, admittedly tentative, indicates that reinvestment was extremely small in the past despite very high profits in manufacturing. Given this evidence, the upward shift in the reinvestment rate projected by the Mission may turn out to be overoptimistic. More conservative assumptions regarding reinvestment and regarding capital inflow would raise the need for government transfers considerably above the figure suggested by the Mission.

91. The whole subject of industrial finance requires much more examination than the Mission was able to attempt. The results of such an examination may change substantially the estimated flows As far as the next few years are concerned, however, there is no doubt that the needs for government finance will be very great, and they will have to be taken into account in determining tax and budgetary policies. In mid-1961, the Development Bank of the Philippines was considering 560 industrial loan applications for more than ₱200 million, compared to ₱80 million six months earlier. The Bank, in June, 1961, required an additional ₱150 million in loanable funds to carry out their credit program for the fiscal year 1961–62 alone.

92. Serious consideration should be given to the techniques of transferring capital to safeguard efficiency and flexibility. A large part will presumably be channeled as loans by the Development Bank. The past method of straight tax exemption, while raising the profit rate and thus the incentive to invest, failed to induce a sufficiently high rate of reinvestment of profits. This legislation is now expiring. The Government may consider the possibility of lending back to a firm the amount of its corporate tax liability,

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[29] In the past there was probably net outflow of considerable magnitude. See the Chapter on financing.

[30] These ratios are applied to profits expected to be generated both by the existing industries and by the plants included in the proposed investment program.

[31] Net reinvestment ratio of 35% would cut the need for government transfers by ₱250–300 million.

provided the latter is used for new investment. These loans may be for 10–15 years and the rate of interest may be low or zero. This may be combined with an increase in the rate of corporate income tax.

93. The establishment of enterprises of high priority where risks are great and capital needs are lumpy, requires urgent attention. A scheme could be envisaged by which a development institution takes the initiative in promoting such ventures by canvassing interested parties (domestic and foreign). Furthermore, such a development institution could hold, if necessary, the securities of newly established enterprises until they became marketable.

Tariff and Export Promotion Policies

94. The Mission has examined with great interest the Basic Industry Act. The legislation exempts imports of machinery and equipment by industries classified as "basic" from import taxes. Almost all industries are defined as "basic" in the final law. The effect is to cut capital costs by more than 20%. Although the Mission sympathizes with the intention of the law, i. e. to stimulate industrial investment, it has serious reservations regarding the technique used. Entrepreneurs will prefer foreign equipment to domestically produced items, even when the latter are priced at a level less than the import cost including tariffs. Consequently, the legislation will defeat one of its major purposes—i. e. the stimulation of the domestic capital goods industries. Secondly, the legislation will tend to shift factor proportions in the direction of capital (and foreign exchange) intensive operations. It may, of course, be argued that there is little room for substitution in any one particular industry. However, the legislation will favor the use of capital intensive methods in construction, particularly in road building, which will adversely affect the employment objective.

95. Existing industries affected by rising costs of inputs require increased tariff protection to gain time for readjustment. Also, new industries should be protected against foreign competition during their growing up stage. The degree of protection should be determined after serious study of all aspects of the devaluation, including the reduction in the real costs of labor. The Mission does not have the impression that current proposals for tariff changes have been based on a thorough examination of all factors bearing on costs. This was probably impossible, given the fluidity of factor prices in a period of transition from one exchange rate to another. A re-examination of tariff rates is necessary as soon as devaluation is completed. In determining the rates, the authorities should bear in mind three factors. First, there is now need to develop inter-

mediate products, and they will need protection. Secondly, excessive protection of the latter would raise the over-all cost structure of Philippine industry. Thirdly, the geographical location of the Philippines and the prevalence of smuggling sets a limit to effective protection, particularly of more expensive consumer goods. If that limit is crossed—the limit is determined by the cost of smuggling—the protected industry does not benefit from tariffs.

96. The Government's industrial policy in recent years has placed more emphasis on import substitution than on the promotion of exports. The Mission is convinced that given the new exchange rate, a number of opportunities will arise in the field of manufactured goods, including rubber products, electrical goods, processed foodstuffs, chemicals. Energetic action is required to seize these opportunities. We recommend that the Government render all possible assistance by removing tax and tariff anomalies, and possibly, by providing tax advantages, and by negotiating trade agreements and regional customs unions. Diversification of the export structure is the only way of assuring a sustained expansion in external earnings.

Note on Non-Organized Manufacturing

97. The Mission expects that non-organized manufacturing—firms with less than five workers and cottage industries—will continue to expand their production. The problem of adjustment they face is not very serious since small-scale manufacturing was already buying its inputs at high prices in the past. The moderate income elasticity of demand for most products of this sector—clothing and footwear, grain milling, other food processing, furniture making, other handicrafts—sets over-all limits to growth of the sector as a whole. However, there is the export market for some products which has not been exploited sufficiently in the past. With devaluation completed, some items of home industries—articles of wood, embroideries and other specialities—may achieve substantial expansion. Conditions for this are an aggressive sales organization and careful quality control; and the Government should urgently examine what steps it can take in this field. Another area due for rapid expansion are repair shops in the metal-working industries; they will increase their output *pari passu* with the expected over-all growth in the supply of machinery and transport equipment.

98. Small-scale manufacturing is a large employer in the Philippines, although its aggregate net output is small. All figures are tentative; the Mission's guess is that it may be employing at present around 850,000 people. Probably less than one-half of these are engaged in the cottage industries, at extremely low level of pro-

ductivity and with only part-time employment. The remainder is engaged in small production units in the cities, where productivity is considerably above that in cottage industries. The Mission expects only a moderate increase in total employment in small-scale manufacturing as a whole, although shifts within the sector may be considerable.

C. MINING

99. The post-war period has been one of steady progress in base metal mining, particularly copper and chrome. Prospects for increased output of these ores and of iron are bright. Iron ore exports will rise less rapidly than out-put as iron ore is converted to iron and steel products. Precious metal, particularly gold, have been subject to the world-wide force of a cost squeeze against an unchanged dollar price.

100. The mineral potential of the Philippines has not been adequately explored as yet. Adoption of a unitary exchange rate may increase the confidence and willingness of investors (both foreign and domestic) to increase their expenditures for base metal exploration and development. Government policy recognizes the need for clarifying and stabilizing the rewards, incentives and responsibilities of private firms and for improving such services as geological mapping.

101. The presently known coal resources of the Philippines are limited largely to Cebu and a few other areas. A recent IAEA report recommends a "policy of exploration and development of coal resources". It is understood that technical assistance through the UN has been initiated recently. These studies should develop a clearer notion of the exploration and development potential of Philippine coal and some views on the desirability of and costs involved in modernizing coal output. Our necessarily limited inquiry in this area indicates that Cebu, where coal is already competitive with other energy resources, offers probably the best opportunity to concentrate effort on 1) improving basic resource data; 2) rationalizing production methods; and 3) developing a market for coal in economic competition with other energy sources. As work proceeds in other areas, new coal sources may be uncovered. High priority in government expenditures should be accorded to research or exploration projects which offer promise of improving coal resource data, particularly of potential economic sources of metallurgical coal, needed in connection with the smelting of ferrous and non-ferrous ores.

102. There is a pressing need for the review of government policy with regard to nickel-iron deposits, which to date has envisioned massive investment projects premised on presumed high profit potentials. It is clear that private investors have not evidenced equal optimism. Consideration should be given to the alternative of encouraging investment in this sphere with a more limited objective, namely the marketing of an iron product obtained by processing to a more limited extent that portion of the deposits most amenable to such treatment. The objective would be to determine whether some benefits could be derived from the deposit over the next few years as contrasted with delaying exploration in the hope of obtaining larger benefits at a later date through technological improvement which no one can say with assurance will be realized at all in the near future. It should be stressed that the massive size of these deposits makes it possible to initiate a modest short-term program without prejudicing a change in policy, at a later date, if technological changes or discoveries warrant. Provision could for example be made for varying terms of contracts in the event of pre-determined changes in circumstances.

103. There would also appear to be a pressing need for recruiting and training a small staff in the Bureau of Mines to keep abreast of the economic aspects of the mining industry. It is our impression that emphasis has been overly concentrated on the geological, engineering and legal aspects of the Bureau's work and the Governments' role. Relative small outlays in this field could benefit not only the Bureau but other branches of the Government dealing with economic aspects of mining e.g. gold subsidies, foreign trade in metals and minerals, and investment activities of agencies such as the Development Bank.

D. POWER

104. In recent years the consumption of electric power has increased rapidly and the growing needs have been met reasonably well particularly in the more developed areas. Plans for the expansion of capacity and the extension of the existing grids have been made to meet expected needs quite far into the future.

105. The main problems in achieving an orderly and efficient development of the nation's power supply lie in (*a*) improving the coordination between NPC and the Manila Electric Company (Meralco) in planning the expansion of and operating the large Luzon grid, (*b*) planning the expansion of the smaller Agus grid in Northern Mindanao in step with the lumpy development of industrial demand and (*c*) improving the supply of power to areas not yet connected to these grids or not capable of being so connected.

106. The Luzon grid is the most developed area of the country and is estimated to supply about 85% of the power consumed. The capacity of the grid is divided about equally between NPC hydro plants and Meralco thermal plants. The transmission lines are NPC's; Meralco owns and operates the distribution system in the Manila area and is by far the most important customer for NPC generated power. Although progress has been made in achieving a closer coordination of operations between NPC and Meralco there is still more that can be done to improve the operating efficiency of the grid as a whole. The problem of achieving the most efficient selection and timing of new capacity in relation to existing facilities and expected growth of demand can be quite complex. The Mission suggests that a study of this problem be made in order to establish a basis for effective planning and operational coordination on the Luzon grid which could lead to an appreciable improvement in efficiency and a corresponding savings to the economy. Such a study is urgently needed not only on planning and operations but also to decide a reasonable schedule of wholesale and retail rates to be charged for the power generated and sold by the two system. This question is especially important because the operating cost of both systems are likely to be affected, especially in the case of Meralco, by the change in the exchange rate.

107. The problems of NPC's Agus grid in Northern Mindanao are those of coordinating supply to a very lumpy development of demand in such a way as to minimize idle capacity. The curve of future demand in this area depends heavily on the timing of new heavy energy using industrial plants. For example, the new Iligan steel mill will use some three times the power generated at Maria Cristina in 1960 when it comes into full operation. The aluminum plants under consideration would each use more than the total 1960 output.

108. The problem of improving the supply of power in areas either connected nor capable of being connected to one of the grids is a difficult one. There are many isolated plants and small systems in this category—a number being supplied by small NPC hydro and diesel plants. They vary from systems such as that of Cebu City served by a power company with some modern thermal units to small isolated communities which obtain an uncertain supply of expensive power from diesel plants. In addition there are many areas not now served at all. In some cases there would appear

to be scope of interconnection and coordination of investment and operations between adjacent systems, but probably in most cases there is little immediate hope for gaining economies in this way.

109. Even though the possibility of supplying these areas with relatively cheap power is remote, there is no doubt that considerable improvement can be made in the existing situation. These operations vary widely in efficiency; some are subject to frequent breakdowns as a result of poor maintenance and old equipment, while others are well run and well maintained. There is an obvious need for technical assistance in operations, planning and maintenance of standards, and for new equipment. One of the main difficulties of dealing with this problem is the very scattered and unorganized nature of these suppliers. A necessary step in developing a policy to improve electricity supply in these areas would be a program of organization of these small utilities through which they could obtain financing and technical assistance provided certain conditions were met including standards of technical and operational efficiency and maintenance of rates at a satisfactory level. Such a program financed in part by a small revolving fund could also promote the establishment of power systems in areas not yet served.

E. TRANSPORTATION

110. Philippine transportation services barely kept pace with the movement of aggregate output during the last five years. The volume of road transport, as measured by gasoline consumption, increased by 30%. Cargo moved in inter-island shipping rose by 32% and that carried by the Manila Railroad by 29%. The only dynamic element in the transport scene was the more than doubling of the traffic carried by the Philippine Airlines.

Road Transport

111. The sluggish growth of motor transport results from (*i*) the present state of the road network and (*ii*) the unavailability of sufficient foreign exchange to replace and expand the trucking fleet. There is cumulative interaction between these two factors. On the one hand, the poor riding surface of most roads reduces the useful life of vehicles and inflates the demand for imported spare parts. On the other, the shortage of trucking space encourages overloading and hastens the deterioration of pavements and gravel surfaces.

112. The Mission is of the opinion that road transport is a serious bottleneck in the Philippine economy. Remedial steps ought to be taken. We propose a resurfacing program embracing about

4,000 km of selected highways, which carry a traffic volume of more than 100 vehicles a day. Such a program is likely to cost about ₱250 million and should yield benefits to the economy in terms of doubling the average life of vehicles and reducing the cost per ton-km by 30% or more. The main objective is to arrest further deterioration in the road network and to restore its normal state.

113. In addition, the capacity of the road system must be expanded to allow for increasing traffic. Broadly speaking, the Mission endorses the concept of the Pan Philippine Highway as an ultimate objective. The real problem is to select specific projects on the basis of traffic studies and engineering designs. Spending huge amounts on grandiose bridges spanning the ocean is obviously less important than modest outlays on structures which will accommodate anticipated increases in traffic. We have allowed ₱500 million for this program of adding traffic lanes, construction of bypasses, replacement of temporary bridges, etc. Considerable preliminary investigations must precede actual expenditures under this heading.

114. Public investment in improving the highway system will not be fruitful unless complementary private investment in expanding the trucking fleet is forthcoming. The present demand for trucking space is not being met efficiently. Despite the elaborate system of foreign exchange controls, the stock of passenger cars and other vehicles for consumption purposes increased at a faster rate than the trucking fleet during the recent past. We suggest that, if necessary, priorities be reversed in the future to assure satisfactory transport of goods and services. Compared to a 46% expansion in the over-all stock of motor vehicles, the number of serviceable trucks should rise by at least 65% during 1960–66. This must be regarded as an essential component of the nation's over-all transport program.

Roads for Agricultural Development

115. In the section on Agriculture, we have set up the target of increasing the area under cultivation by 1 million hectares during the next five years. In this connection, the country has a choice between placing primary emphasis on the "ribbon" type of land development, as in the past, or stressing the "block" type of land development. In the "ribbon" type of development, new areas are made accessible by a long main road built to high-standards and connecting two traffic poles. Experience shows that in such a case agricultural development takes place on both sides of the highway up to a depth of only one or two km. By contrast,

"block" development envisages the penetration of virgin territory by one main road and a network of low-standard parallel and lateral roads feeding the main highway. Agricultural development can take place up to a much greater depth on both sides of the main road and distances from the market are generally smaller than in the case of "ribbon" development. The Mission recommends that the Philippine Government adopt the principle of "block" development wherever this is feasible. The over-all transport cost of land development is likely to be significantly smaller in case our suggestion is accepted. We have allowed for an expenditure of ₱250 million to cover the cost of new roads associated with plans for land resettlement.

Barrio Roads

116. The present road network extends to 44,000 km but only 75% of it is motorable. The remaining earth roads and trails are used by carabao drawn vehicles and by pedestrians. Efforts have been made in the past to convert these into motorable roads. This Mission was not impressed by the administrative mechanism by which this work was handled. Not only was the selection haphazard and the construction frequently poor, but we noted instances in which recently completed roads had eroded for lack of maintenance.

117. Despite this record, we have allowed for a large increase in expenditures for the upgrading of barrio roads, on the premise that it ought to be possible to instil method and efficiency into the administration of the Public Works Act (popularly known as the "Pork Barrel" System). The conversion of barrio earth roads and trails into motorable roads is an important form of rural capital formation and one which can generate considerable employment. We recommend that steps be taken to organize this endeavor purposefully, to elicit the cooperation of those directly affected and to assign clear cut responsibility for maintaining these works.

Cagayan Valley Railway

118. We have considered the alternative proposals to solve the transport problem of the Cagayan Valley. A rational choice between a repaved, structurally improved highway and a railroad connection from San Jose to Tuguegarao turns on the question of which is cheaper from the national economic point of view. The capital cost of rebuilding the road is about ₱42 million. The project can be finished in three years. The capital cost of the railroad extension is ₱150 million and construction will take seven years. Only a part of the projected traffic is expected to use the

railroad; the rest will continue to use the road. Therefore, sections of the main highway must be repaved in any case, costing ₱17 million. Altogether, the capital cost of the railroad solution is ₱167 million compared to ₱42 million for the improved road. In contrast, the operating cost per ton-km is more than 40% higher on the road than on the railroad.

119. Which mode of transport is preferable to the Philippine economy depends on the anticipated flow of traffic. The economic justification for the railroad would be strong if there was reason to expect a very large expansion in the volume of traffic, soon after the railroad came into operation. The large capital outlay would be spread over a big traffic volume and the railway would be utilized to full capacity. However, traffic studies made by the Manila Railroad suggest a modest increase in traffic. Using this projection, we calculated the total cost to the economy of producing the required transport services. If the road solution was adopted, the cost over the next 25 years would be ₱143 million expressed in 1961 values. The corresponding cost of the railroad solution would be ₱215 million. The annual outlay in each of the 25 years was expressed in 1961 values by using a discount rate of 8%.

120. On the basis of existing evidence regarding the production and export possibilities of the Cagayan Valley, the road solution is clearly preferable. The balance might well be tilted in favor of the railroad if new mineral resources were discovered. However, the Mission would not advise building the railroad on the gamble that large deposits might be found.

Inter-Island Shipping

121. Coastal shipping plays a crucial role in the Philippine transport system. These ships carry raw materials and some export products from the outlaying island to the big urban centers and take back locally-produced or imported manufactured goods. The inter-island fleet has an estimated capacity of more than 245,000 net tons, with an average capacity per vessel of only 57 tons. Although, seasonal fluctuations in the traffic occasionally cause delays, the mission doubts whether there is presently any serious shortage of capacity. On the contrary, the fierce competition among carriers and the widespread practice of granting rebates suggests that supply exceeds demand in the shipping business.

122. The Mission heard many complaints about the high level of shipping rates. It was suggested that a reduction would take place if the fleet was modernized. Neither proposition is borne out by the evidence we have been able to collect. The actual freight

rates average between 75%–90% of the official rates, established by the Public Service Commission. Compared with prevailing prices in coastal and inland shipping in Western Europe, Philippine rates do not seem excessive. For some commodities, inter-island transport charges per ton-km are, of course, higher than in international shipping. Lower rates are possible in the latter on account of economies of scale (both bulk and long distance).

123. The belief that modernization of the fleet would immediately reduce costs and prices does not stand scrutiny. True, most of the existing fleet, converted from military vessels, involves a higher operational coast than commercial craft. However, these ships were acquired from U. S. war surplus stocks at nominal prices. Lower operational costs of a modern ship would be more than offset by higher capital costs. Only when replacement proceeds so far that the average size of the fleet rises to about 3,000 tons and capacity is fully utilized, economies of scale may permit lower freight rates. This is a distant hope. However, rates on particular commodities, say logs, may fall in the near future if the trade acquires special purpose bulk carriers.

124. The average age of the present fleet is about 15–20 years. We expect that these ships can be economically operated for another 10–15 years, although the already heavy maintenance costs may climb upward. Beyond a certain point, it will be cheaper to buy a new ship rather than spend enormous amounts on repairs. At that time, the Philippine Government may find it necessary to extend financial assistance to shipping companies.

125. The Mission expects that the volume of traffic in inter-island shipping will increase, at least, as fast as aggregate output, if not more rapidly. We have allowed for capital expenditures by the industry to expand the capacity of their fleets. We envisage that this increase will take the form of petroleum tankers associated with the expansion in refinery capacity, dry cargo bulk carriers to carry commodities such as logs, steel and fertilizer and possibly, general cargo passenger ships.

Ports

126. The Philippines has 351 public ports of which 25 are open to international shipping. The rest cater exclusively to the inter-island traffic. Some of the international ports—notably Manila, Cebu, Zamboanga, Davao, Tabaco—are presently experiencing congestion owing to the shortage of deep water berths. We recommend a sizeable expansion in the traffic handling capacity of these ports to eliminate the existing bottleneck and to keep pace with anticipated increase in foreign trade. In this context, the Mission has

some reservations regarding the scale of the Manila port project to be partly financed by a loan from the U. S. Export Import Bank. It seems to us that by more than doubling the number of berths during the next five years, this project will build considerable excess capacity. We would also suggest a re-examination of the need for additional deep water berths in Iligan and Cotabato. The Bureau of Public Works Plan for expansion does not allow sufficiently for rising traffic volumes on account of the proposed steel complex in Iligan and the likely exportable surpluses of Cotabato.

127. Port facilities for domestic trade are generally adequate to handle the existing volume of traffic. However, congestion develops during seasonal peaks in a few ports. In broad outline, we subscribe to the B. P. W.'s Plan for expansion. In many instances, this program implies doubling existing port capacity by building a second berth. This will inevitably create capacity ahead of demand. The Mission hopes that ample provision of this form of social overhead capital will stimulate economic activity.

Air Transport

128. We expect that the rapid development of air traffic in the recent past will continue in the foreseeable future. Large investments are required to prepare for this expansion. The Philippine Airlines will need additional aircraft and ground facilities will have to be improved considerably.

129. The Mission suggests that major airfields be reconstructed to accommodate Viscount aircraft. Secondary airports should be prepared to handle Fokker F–27 Friendship planes. The remaining airports should be designed for D. C. 3's. The program should also aim at equipping the larger airports with night landing facilities to allow more intensive utilization of the fleet.

Conclusion

130. The transport sector cannot be neglected for long without the economy suffering adverse consequences. The system of distribution may cease to function properly. Prices in local markets may fluctuate excessively. Inventory requirements may become abnormal. Production incentives may sag and resources may remain idle for lack of access. A determined effort must now be made to catch up with past arrears and to lay the foundation for the economy's swift advance.

Public Capital Expenditures on Transport and Telecommunications

million ₱	(Post-devaluation Prices)	
	1963–67	1956–60
Total Roads and Bridges	1,300	538
Resurfacing program	250	n.a.
Structural improvements	500	n.a.
New roads for agricultural development	250	n.a.
Feeder and barrio roads	180	n.a.
Manila flood control program	70	n.a.
Manila thoroughfare plan	50	n.a.
Total Ports	188	57
Manila port (to be re-examined)	100	n.a.
Other major ports	43	n.a.
Dredging program	25	n.a.
Municipal ports	10	n.a.
Miscellaneous	10	n.a.
Total other	237	143
Airports	80	27
Air fleet (P.A.L.)	70	25
Railways (M.R.R.)	75	66
Telecommunications	12	12
Miscellaneous	—	13
Grand Total	1,725	738

F. SOCIAL SERVICES

Education

131. The Philippine educational system has a high rank alongside neighboring Asian countries and indeed among most less-developed countries. Four out of five children of elementary school age receive instruction. The proportion of elementary to secondary enrollment is similar to other countries at the same stage of development. The ratio of college students to the total population is much higher than in any other country, except the United States.

132. The Mission was impressed by the quantity of Philippine education. At the same time, the Mission is aware of its qualitative limitations. The shortage of elementary school buildings has led to overcrowded classrooms and reduced hours of instruction. The shortage of textbooks has forced teachers to rely heavily on the recitation and rote methods of instruction. A 1960 survey of Philippine schools (by the United States Operations Mission) revealed a serious deterioration in pupil achievement.

133. Secondary and higher education is provided to a considerable extent by private, non-sectarian schools run by profit-making corporations. Some of these institutions are obviously inspired more by commercial values than by regard for scholarship.

134. The Mission is convinced that the Philippine educational system is not focused on the needs of a rapidly growing economy. Education is regarded more as a constitutional right than as an instrument of economic progress. The accent is on social consumption rather than on purposeful investment.

135. There is a high rate of drop-out in the elementary schools. Nearly 63% of the children who enroll in Grade I fail to complete elementary school. This must be regarded as an enormous waste of human resources. Children who go to school intermittently for a year or two are unlikely to become educated in any permanent sense of the word, to say nothing of becoming efficient workers. Although there is considerable interest in vocational schools, their effectiveness remains to be proved. Their distribution of graduates—there were 32,000 in 1958–59—is heavily weighted in favor of tailors, stenographers and fashion experts. The proportion of graduates finding jobs appropriate to their training is disquietingly low. As far as the Mission knows, there has been no attempt to determine the demand for various kinds of skills. Even in the sphere of higher education, little effort is made to influence or control enrollment in particular courses of study. The result is a glut on the market of teachers, lawyers, liberal arts graduates, and some others.

136. The Mission's recommendations are based on the premise that public education can make an important contribution to rapid Philippine progress. This premise will hold only if primary importance is attached to problems of quality, and if an attempt is made to anticipate future demands for vocational and professional skills.

137. Public expenditures on elementary education should be increased to meet three objectives: (1) a rise in school age population of 23% during 1959 and 1966, (2) a rise in expenditures per student from ₱69 to ₱90, and (3) the reduction in the drop-out rate which can be expected from a more adequate school program.

138. The Mission recommends that the national government extend financial support to general secondary schools, which rely heavily on tuition fees at the present time. Onerous charges prevent children with demonstrated academic ability, but whose parents are poor, from completing their secondary and higher education. This is not only inequitable; it deprives the nation of a valuable intellectural resource. Furthermore, the expansion of vocational education must be related to national plans for industrial and agricultural development. In the full report, we will indicate the employment

implications of a possible set of investment decisions. If this program is to be implemented, considerable thought must be given to the skills required. These in turn must be translated into appropriate curricula and enrollment.

Health

139. Philippine health standards improved rapidly during the last decade. Life expectancy at birth increased one year per annum—an extraordinary rate compared with 19th century experience—and this improvement has had a significant impact on recent and prospective populations growth, as we have discussed earlier in this report. The increase in life expectancy is largely the result of low-cost control of mass communicable diseases. A malaria eradication project was launched in 1953, and since then the registered deaths attributed to this disease have declined by 76%. The proportion of the population living in malarious areas has decline from one-third to one-tenth. However, the administration of this malaria-control project has not been an unqualified success; its completion faces formidable obstacles. The anti-malarial project should be converted into an emergency campaign, backed with wholehearted financial, and technical support.[32] Unless malaria is eradicated before resistance to D.D.T. is developed—which can be expected within the next five years—the nation's program of land settlement will be in jeopardy.

140. Only a beginning has been made in combating tuberculosis. Though mortality from this disease has declined by 22% during the last twelve years, it still remains at a high level. Present facilities for diagnosis and treatment are grossly inadequate. The Mission's recommendations for public expenditure allow for a substantial increase in the scope of the tuberculosis control program.

141. The availability of potable water has increased during the last five years. According to rough estimates made by the Mission, nearly 45% of the total population has access to a safe water supply compared to 33% in 1955. The improvement is more marked in rural areas, resulting from the installation of a large number of artesian wells. As a result, mortality due to dysentery and typhoid has been substantially reduced. The problem still remains large, however, and the solution will be expensive. The mission's program implies an increase of more than 50% in investment outlay on waterworks and artesian wells.

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[32] See *The Current Status of the Malaria Eradication Program in the Philippines*, 1961.

142. Facilities for medical care are well developed in the Philippines, compared with other countries at similar levels of per capita income. The ratio of population to hospital beds and to doctors has declined in recent years. However, medical facilities are very inequitably distributed among the geographical regions and between urban and rural areas. The Mission heard serious complaints about severe shortages of drugs, equipment and repair facilities in public hospitals. Budgetary data confirms our impression that public hospitals have been, in fact, denied sufficient financial support. Actual expenditures per hospital bed have averaged less than ₱6 per day compared to the standard of ₱8.10 set by the Philippine Government. The Government must take steps to assure that the nation's present hospitals are not financially starved. Furthermore, the Mission proposes a substantial expansion in public hospitals on the grounds that continued progress in Philippine health standards is necessary. The Mission does not foresee any sizeable expansion in private facilities. If the Mission's program is carried out, the capacity of public hospitals will increase by 65%, the number of inhabitants per hospital bed will fall to 1100 from the 1226 in 1960.

143. Although Rural Health Units have provided valuable services, their work has been hampered by three factors. First, there still is an acute shortage of professional staff in relation to the needs of a widely dispersed population. To some extent, this problem may be alleviated by providing more motor transport. If every doctor and dentist had a suitable vehicle at his disposal, the increase in the value of his services could be many times the extra cost. Secondly, the present ratio of intermediate level technicians to professional staff appears to be disproportionately low. To make maximum use of professional manpower, the recruitment of nurses, midwives and dental aides will have to be accelerated. They can perform many medical tasks quite satisfactorily and enable the doctors to devote their time to supervisory and specialized functions. Thirdly, Rural Health Units seldom have adequate supplies of drugs and medicines. Without these, medical facilities in the barrio can hardly be satisfactory. The Mission recommends a substantial rise in expenditures for the rural health program.

144. The Mission's general conclusion is that future progress in Philippine health standards is contingent on expensive and time-consuming measures. The easiest battles have already been won. The serious health hazards of the 1960's—pneumonia, bronchitis, tuberculosis, gastro-enteritis—must be tackled by improvements in environmental sanitation and curative medical facilities. Life expetancy at birth will most likely continue to rise, but the advance is likely to be slower than in the past decade.

G. IMPLICATIONS FOR OVER-ALL INVESTMENT, OUTPUT AND EMPLOYMENT

145. A program along the lines outlined in the previous sections should make it possible for the economy to achieve a growth rate in real output of more than 6% per year during the next five or six years, to reduce materially the rate of unemployment and underemployment, and to provide some improvement in per capita standards of social services during the period. It would also help greatly to provide the basis for meeting the problems of the future.

146. The financial costs would be substantial, both in terms of investment outlays, and of current public development expenditure. But as indicated in the following chapter, we believe it should be feasible to finance these costs. From both an economic and social standpoint, the increase in effort required to do so would seem amply justified.

Total Investment

147. The investment projected for the five-year period 1962–66 would aggregate 14.3 billion pesos, as compared to a total for 1956–60 of 8.4 billion (both valued at post-devaluation prices)—a rise of 70%. As a percentage of the national product, investment would grow from just under 14% in the last five years to 17.5% in the 1962–66 period. Between the year 1960 and the year 1966, the ratio would rise from 13.6% to 18.6%. The breakdown of investment by broad sector is indicated below:

Gross Investment

(Billions of pesos at post devaluation prices)

	1956–60	1962–66	1960	1966
Agricultural—Fixed	.88	1.80	0.16	0.49
Agriculture–Livestock	.11	.22	0.03	0.06
Sub-total	.99	2.02	0.19	0.55
Manufacturing—5 workers and over	1.20	2.97	0.30	0.66
Manufacturing—less than 5 workers	0.64	0.75	0.13	0.17
Sub-total—Fixed	1.84	3.72	0.43	0.83
Mining	0.30	0.45	0.05	0.10
Transport and Communications	1.26	2.43	0.39	0.58
Power and Water	0.41	0.92	0.09	0.22
Construction Trades	0.12	0.29	0.02	0.07
All other	2.83	3.74	0.52	0.90
Total—Fixed	7.64	13.04	1.67	3.19
Livestock increase	.11	.22	.03	.06
Other Inventory increase	.70	.77	.10	.17
Grand Total	8.45	14.33	1.80	3.42

148. It will be seen that in both agriculture and manufacturing, capital formation is projected as doubling in the 1962–66 period. Primarily in support of the growth in these sectors, transport investment is also projected to double, while utilities (mainly power) and the construction trades should expand proportionately even more. Capital outlays in mining should rise by at least 50%. Investment growth in other sectors is likely to be slower because, in general, the rate of capital spending was already fairly high in the 1956–60 period; e.g., in the case of residential construction, and school buildings, some of the backlog was made up in that period, resulting in some per capita improvements. Approximately the same rates of per capita improvement are allowed for in the projections for 1962–66. Inventory investment is expected to grow at a slower rate than in the past, for two principal reasons: first, no further increase in government tobacco stocks is projected; second, manufacturing inventories were built up abnormally in the 1956–60 period (to a level corresponding to nearly four months' sales); for the future reduction to a more normal ratio (three months' sales) is projected.

The Public Sector Program

149. Of the total investment projected for 1962–66, direct public sector outlays account for ₱4.0 billion, as against ₱2.2 billion in 1956–60. Current expenditures by the Government will also have to rise substantially if reasonable targets for economic and social development are to be achieved. We have projected a rise of 45% in current outlays on goods and services—from ₱4.85 billion to ₱6.9 billion. This would bring the total public bill for direct outlays to ₱10.9 billion in 1962–66, against ₱7.0 billion the last five years. In addition, a substantial amount of public loans and transfer payments to the main commodity producing sectors will be required. This is discussed in the next chapter. The distribution of the direct current and capital outlays is indicated in the following table:

Direct Public Sector Expenditures[33]
(Millions of pesos at post-devaluation prices)

	Capital Outlays		Current Outlays on Goods and Services		Total Outlays	
	1956–60[33]	1962–66	1956–60 FY	1962–66	1962–66	1956–60
Agriculture Fixed	230	450	255	515	630	1,015
Agriculture Inventory	145	50	...	...	...	...
Transport	740	1,750	600	810	1,340	2,560
Power and Water	340	690	25	...	365	720
Construction Equipment	40	125	...	...	40	125
Commerce and Industry	105	50	110	165	215	215
Health and Education	210	310	1,735	2,990	1,945	3,300
Housing and Social Welfare	35	115	115	200	150	315
Defense and Constabulary	...	...	945	1,080	945	1,080
All Other General Government	345	450	815	1,150	1,160	1,600
Total	2,190	3,990	4,605	6,940	6,790	10,930
			4,850[34]		7,030[34]	

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[33] Consolidated totals for national and local governments, government corporations and expenditures financed from foreign loans and grants. For the latter two expenditure groups, capital outlays only are included.

[34] Estimated calendar year totals.

150. Among public sector capital outlays, it will be seen that the major increases suggested are in the economic development sectors: agriculture (other than inventories), transport, power and water. A decline is envisaged in direct government capital outlays in manufacturing in line with present governmental policy. However, as shown in the next chapter, an increase is projected in capital transfers. To support the major rise in public construction activity resulting from this program—particularly in roads, ports, etc., net investment in construction equipment would have to be increased along the line indicated—even if, as assumed, a good portion of the increased activity is handled by private contractors. Among the social services, a rise of 50% is foreseen in public health and education capital requirements. In housing and social welfare, the increase reflects the suggestion that a moderate scale public low cost housing program be initiated in the period.

151. In current outlays, a large rise is projected for agriculture to reflect our suggestion of considerable expansion of work in agricultural extension, land survey, forest protection, etc. The transport item reflects the recommendation of a moderate increase in maintenance expenditures. The largest absolute increases in current outlays will, of course, be required on education. An increase would be necessary just to maintain present standards per pupil. Our projection allows for a moderate per capita improvement in both education and public health facilities.

152. Considering the current and capital together, public outlays for economic purposes amounted to around 40% of total public expenditures in 1956–60, with 31% for social services, and another 29% for defense and general government. The suggested program for 1962–66 allots 45% for economic, 31% for social, and 24 for defense and general government.

Output and Employment

153. As mentioned earlier, the projected investment outlay should lead to a growth rate in real output of over 6% between 1960 and 1966. Taking 1961 as a base the rate might be as much as 6.5% in the next five years. Under these conditions, employment should expand by around 3% per year for the period, with the creation of about 1.5 million new jobs in 1962–66, or enough to absorb the increase in the labor force in the period. And the projected increase in productivity per worker should be accompanied by reduction in underemployment (and increase in per capita income) particularly in agriculture and manufacturing. This would

involve a reduction in visible unemployment and underemployment[35] from an estimated 11% of the labor force in 1960 to between six and seven percent by 1966. Projected growth by main sector is indicated below:

	Net Output at constant prices (Billions of pesos)			Employment (000 workers)		
	1955	1960	1966	1955	1960	1966
Agriculture	3.10	3.85	5.20	5,020	5,800	6,900
Organized manufacturing	0.89	1.46	2.67	200	250	350
Small scale manufacturing	0.43	0.60	0.82	830	870	930
Mining	0.17	0.23	0.37	25	35	45
Transport and utilities	0.28	0.38	0.57	250	320	430
Construction	0.39	0.47	0.84	210	250	400
Commerce and trade	1.06	1.32	1.68	860	860	880
Services including government	2.17	2.88	4.00	990	1,090	1,265
Total	8.49	11.19	16.15	8,385	9,475	11,200

154. It will be seen that in these projections agricultural employment does not change as a percentage of the total. Sectors which are likely to rise significantly are organized manufacturing, transport services, and construction. Small scale manufacturing, commerce and trade are expected to decline relative to the total. With the growth in the industrial base, however, a decline in agricultural employment as a percent of the total should begin to take place toward the end of the decade.

155. In all sectors, rises in productivity per worker are projected, with the greatest rise, as one would expect, projected for the organized manufacturing sector. These productivity increases derive basically, of course from the projected rise in investment discussed earlier.

H. IMPLICATIONS FOR FOREIGN TRADE AND CURRENT EXTERNAL ACCOUNT

156. Considerable changes in the volume and composition of foreign trade may be expected, particularly on the import side. The volume of exports is likely to expand by around 4.5% per year between 1960 and 1966. However, due to expected lower prices for coconut products and abaca, and to the proposed cut in the volume of exports of logs, aggregate export earnings are unlikely

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[35] Calculated in man-year equivalents.

to increase faster than 3% p.a. In the latter half of the 1960's, as dynamic export products gain greater weight in the total, the rate of growth will probably accelerate—unless this is offset by a decline in sugar sales. In any case, the Mission expects that as a result of the investment program, the composition of exports will change gradually in favor of commodities for which foreign income elasticity of demand is high.

Summary of Export Value Projection
(In millions of U.S. dollars)

	1955	1960	1966
Stagnating Group			
Coconut products	153	179[36]	180
Abaca products	30	45	40
Logs and lumber	41	92	80
Total	224	316[36]	300
Expanding Group			
Sugar[37]	112	143	178
Minerals	40	60	85
Plywood and veneer	1	10[38]	35
Corn	....	....	20
Tobacco products	4	7	17
Fruits and vegetables	7	10	15
Others, including manufactures	11	14	40[39]
Total	195	244	390
Grand Total	400	560[36]	690

157. In the past, the economy has succeeded, through import substitution of manufactured consumer goods, in maintaining a fairly high rate of growth in output (more than 5%) with a much less than proportionate rise in merchandise imports (around 2%).[40] With further import substitution in consumer manufactures and a substantial advance in the production of intermediate goods and raw materials, imports should continue to lag behind output growth, However, the difference between the two growth rates will diminish substantially in the next five years. There will be a sharp increase in foreign exchange outlay on capital goods. Between 1959–60 and 1966, the value of imports is projected to increase at about 5.5% yearly,[41] against an increase in GNP of slightly over 6%.

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[36] Exclusive of non-recorded copra shipments estimated at a minimum of $20 million.

[37] Expansion due to non-quota sales in the United States.

[38] Depressed in 1960 because of U.S. recession; $18 million in 1959.

[39] Of which: aluminum $9 million; rubber products $7 million; electrical goods and other machinery $5 million; chemicals $2 million.

[40] Volume change between 1952–54 and 1958–60.

[41] 1960 alone is not a good benchmark year because of extraordinary purchases of ships ($70 million). Growth rate between 1960 and 1966 would work out at 4.5% p.a.

Provisional Estimate of Merchandise Imports
(In millions of U.S. dollars.)

	1959		1966	
	Value	Percentage Composition	Value	Percentage Composition
Capital goods	125	22	280[42]	32
Inputs into organized industry of	276[43]	48	395[43]	45
which: crude oil	(21)	(4)	(70)[44]	(8)
Finished fuel products	46	8	12[44]	2
Others	130	23	187	21
of which:				
materials for construction	(20)	(3)	(40)	(5)
consumer goods	(70)	(12)		
miscellaneous	(40)	(8)	(147)	(16)
Total	577	100%	874	100%

158. The tentative character of the above estimate should be stressed. Further work may well lead to changes in the projected composition of imports by increasing the shares of capital goods and raw materials and intermediate products. In that case, in order to leave the over-all projection of import value unchanged, adjustment will have to fall on the group "consumer goods and miscellaneous" which is presently projected at around $150 million. Except for some foodstuffs which can not be substituted (probably around $40 million), there should be some room for import replacement here, if that proves necessary. Of course, only actual life can show how realistic any import projection is; the past experience has not been very fortunate. But on the face of it, it would seem that the transfer problem, once the investment program is completed, is manageable—provided adequate financial measures are taken at home and provided the country does have an import capacity exceeding $850 million by the mid-1960's.

159. Invisible earnings will not provide much assistance in meeting the increased import bill. Moderate growth in a number of items—tourist receipts, transportation, remittances from abroad, etc.—will be offset by a decline in U.S. government expenditure in the Philippines as a result of the devaluation.[45] By contrast, invisible payments will rise considerably in the next five years. The largest increases are expected in interest payments on foreign debt, both on that existing and on that to be contracted in the future. Net payments of factor income abroad which were favorable to the Philippines in the past will turn adverse.

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[42] Derived from the difference between estimated total requirements for capital goods and projected domestic supply of capital goods.

[43] Preliminary results of the study on inter-industry relations.

[44] Aggregate fuel consumption is estimated to increase at slightly above 6%. The lower rate of growth in import value results from the decline in crude oil prices since 1960 d from foreign exchange savings on account of domestic refining of crude.

[45] See page 13, paragraph 25.

Balance of Invisibles
(In millions of U.S. dollars)

	1960	*1966*
Receipts		
Services (excluding factor income)[46]	78	78
Factor income[47]	86	85
Total	164	163
Expenditure		
Services (excluding factor payments)[48]	39	50
Factor income[49]	87	117
Total	126	167
Balance		
Services	39	28
Factor income	–1[50]	–32
Total	38	–4

160. The next chapter discusses the problem of financing the investment program, including financing from abroad. It is projected there that net inflow of external resources may amount to $800 million over the period 1962–66. Given the likely disbursement schedule, the implication is that in 1966, net capital imports could be around $180–200 million. This, added to export receipts, appears sufficient to meet the import requirements at the projected level of output and income for that year.

Foreign Exchange Balance, 1956–60 and 1960–66
(In millions of U.S. dollars, current prices)

	1960	1966	Annual Growth Rate 60–66	5-year 56–60 totals	62–66	Annual Growth Rate
Merchandise Exports	560	690		2,456	3,200	
Invisible Receipts	164	163		848	754	
Capital Inflow[51]	68	188		426	793	
Total Resources	792	1,041	4.7%	3,730	4,747	4.1%
Less Invisible Payments[51]	126	167		587	686	
Available for Merchandise Imports	666	874	4.7%	3,143	4,061	4.4%

161. The period in-between may well turn out to be more difficult. Prudent monetary management and an early tax effort will be necessary in order to avoid excessive pressures on the balance of payments

I. INCOME AND EXPENDITURE

162. As mentioned earlier, the execution of the program is in excess of 6% per year. This would mean an advance faster than in the past, despite the fact that circumstances are more diffi-

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[46] Non-monetary gold, tourist receipts, transportation, insurance, government receipts, U.S. military and other expenditure ($22 million in 1960, $15 million in 1966), miscellaneous.

[47] Investment income, veterans' pensions paid by the United States ($30 million in 1960, $51 million in 1966) and private remittances.

[48] Foreign travel, government and others.

[49] Including reinvested earnings of $28 million in 1960 (abnormally low; annual average in 1956–59, $46 million) and $45 million in 1966.

[50] Positive in the preceding years.

[51] Since reinvested earnings are included both in capital inflow and in invisible payments, they cancel out. Capital inflow exclusive of reinvested earnings is estimated as follows: 1960, $40 million; 1966, $138 million; 1956–60, $214 million and 1962–66, $608 million.

cult. Real income will, in all likelihood, rise somewhat slower than real output because of the expected deterioration in the terms of trade. The advance movement in net factor payments abroad will have the same effect. After allowance for these elements,* real national income is projected to increase from ₱13.2 billion in 1960 to ₱18.4 billion in 1966. In terms of five-year aggregates, the growth is from ₱61.0 billion to ₱82.1 billion.

SUMMARY OF INCOME AND EXPENDITURE

(In billions of pesos)

	Post-devaluation prices	
	1956–60	1962–66
GNP at market prices	59.7	81.5
Terms of trade effect	1.3	0.6
Real income	61.0	82.1
Fixed investment	7.6	13.3
Inventories	0.8	1.0
Total investment	8.4	14.3
Public consumption	4.8	6.9
Private consumption	49.3	63.6
Current deficit	–1.6	–2.8
National savings	6.8	11.5

163. Despite the heavy increase in investment outlay, the growth in real income is expected to be sufficiently fast to enable per capita private consumption to rise during the period. Between 1960 and 1966, the expected yearly growth rate is 4.8% or about 1.5% per capita. This is better than in the past five years, although it is not too much. However, the Mission does not see any other alternative. Austerity in the next several years is an absolute condition for the solution of the structural problems of the economy and thus for a much faster increase in output and consumption in the future.

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* And for depreciation and indirect taxes.

CHAPTER IV

Financing the Investment Program

164. Financing the suggested program would undoubtedly require a major effort. However, the Philippines has made comparable efforts in the past, e.g., in 1950–51 after the massive foreign aid of the 1946–49 period came to an end; and again in 1959–60 when national savings were raised from less than 9% of GNP previously to about 12% at present. The program outlined here would require a further upward push in the national savings rate to 15% by 1966. In terms of two five-year periods, the change would be from an average of 11% in 1956–60 to one of 14% in 1962–66.

A. FOREIGN RESOURCES

165. Given a domestic effort along these lines, it is natural that the Philippines will wish to seek a considerable increase in foreign capital inflow during the period. At the same time, however, it will be necessary for the country to build up its foreign exchange reserves. At present, gross reserves stand at around $120 million but net reserves are down to about $70 million which is about one month's imports of goods and services at current rates. If the government is to achieve its objective of maintaining a much freer foreign exchange system in the future, it is essential that reserves be built up substantially from this level. Interim help from the IMF or other sources is, of course, desirable. But we assume loans from such sources would be repaid by 1966. Therefore, we project that out of foreign resources received during the 1962–66 period, $150–200 million would be set aside for reserves, to bring the absolute level of net reserves up to around $250 million by 1966, which might be regarded as a reasonable "normal" level, given the size and character of Philippine foreign trade. This level would correspond to three months' imports of goods and services at the rate projected for 1966.

166. With respect to possible sources of capital inflow during the period, we have made the following assumptions on items other than conventional borrowing:

(*a*) Reparations will continue to average $25 million per year or a total of $125 million as compared to a total of around ₱80 million in 1956–60.

(*b*) Grants, loans repayable in local currency, and interest free long-term credits together might total around $160 million in the period. This is moderately higher than the amount of such assistance in the past five years.

(*c*) Payment of war damage claims from the United States is estimated at $70 million. A $24 million gold revaluation from the United States was received in the past period.

(*d*) Private long-term capital inflow, would aggregate around $300–350 million over the period, including reinvested earnings of foreign companies projected at $190 million. The remainder we assume to be net new foreign investment and the repatriation of some of the Filipino capital which has flowed out of the country in recent years on speculative grounds. In the past five years, net private capital inflow is estimated at only about $135 million. The official estimate for retained earnings is around $210 million and other recorded capital flows net out to zero. The "errors and omissions" item in the balance of payments amounted to around $75 million which is presumed to be in part a reflection of private capital flight in that period. Capital flight on an equal or even larger scale has also occurred through under reporting of exports, which is not reflected at all in the official balance of payments statistics.

167. Conventional borrowing is projected on the assumption that the Philippines could service external debt by the end of the period in an amount corresponding around 11% or 12% of projected current foreign exchange receipts. Total debt outstanding at the end of 1961 is estimated at around $390 million. Of this about $170 million was debt of government and government corporations, and the remainder private debt with exchange guarantees. Of the total, around $100 million is medium-term debt, so that service will be high over the next five years, reaching a peak of $67 million in 1964 (9% of projected earnings).

168. Around $120 million of present debt remains undisbursed. We are projecting disbursement of this and an additional $420 million to be raised by new borrowing during the period. Allowing for time lags in disbursement this means that around $500 million in new loans would have to be contracted in 1962–66. Negotiations are now underway for loans amounting to around $150 million. It

is assumed that the great part of the new debt would be of a long term character. On this assumption, service on new debt would rise to around $45 million by 1966, bringing total debt service projected for that year to around $95 million, as compared with projected foreign exchange earnings of somewhere between $825 and $850 million or a ratio of 11–11.5%. Deducting amortization, use of conventional loans at this rate would produce a net inflow in addition to the other sources mentioned above $280 million in the period and debt outstanding would rise to around $650 million by 1966. Service payments on this would decline to around $65 million by 1969. Thus additional debt could be contracted in the period 1966–68, permitting maintenance of substantial inflow of capital without exceeding total debt service of around $100 million. It should be stressed that the rate of capital inflow from conventional borrowing which will be possible under reasonable debt service limits depends very much on whether new borrowings are on a long-term basis or not. If a substantial share is medium-term debt, then capital inflow from this source would have to be kept to a lower level than assumed here. The Mission wants to emphasize most strongly the dangerous implications of such borrowing policies. They will reduce the credit worthiness already within the next five-year period and thus make impossible the execution of the proposed investment program.

169. Under this set of assumptions, total inflow during the period would aggregate around $950 million. Of this $150 million would be used to build up exchange reserves, leaving $800 million available for financing domestic investment. Thus, of the projected investment bill of ₱14.3 billion, net foreign capital inflow would provide for ₱2.8 billion, leaving ₱11.5 billion to be financed from domestic sources. This compares with foreign financing of $430 million (₱1,590 million in real terms) in 1956–60 and a domestic bill in that period of ₱6.9 billion.

B. FINANCING PUBLIC SECTOR EXPENDITURES

Background

170. With the rise in government expenditures on economic and social development initiated in 1954–55 under President Magsaysay, the role of public finances in the overall monetary situation shifted from a passive one to an active expansionary one. In the four fiscal years 1956 through 1959,[52] net bank credit to the public sector rose by an amount corresponding to 50% of the mid-1955 money

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[52] Fiscal years ending June 30.

supply. With net bank credit to the private sector increasing half that amount, the result was generation of inflationary pressures which led to a drop in foreign exchange reserves of $125 million and a rise in prices of 12%. Pressures on the foreign exchange control system mounted rapidly.

171. Against this background, the Government obtained legislation in the middle of 1959 calling for a number of domestic tax increases and authorizing a margin fee on foreign exchange which was set initially at 25%. As a result, total revenue, including that from the margin fee, rose by 29% in that year and another 8% in the fiscal year 1960–61. Thus, in spite of a further rise in expenditures, the net impact of the public sector was deflationary in those two years. In 1960–61 total current revenue including local government may have attained ₱1,600 million or about 11.6% of GNP as compared with an average of 10% of GNP (at current prices) in the four fiscal years 1956–59.

The Problem for the Future

172. As discussed in the previous chapter, the Mission suggests that direct public expenditures on current and capital account be increased in real terms from a total of ₱6.8 billion during the fiscal years 1956–60 to around ₱11.0 billion in the fiscal years 1963–67 (in this presentation, we have equated calendar years 1962–66 with the fiscal years 1963–67). At current prices the aggregate for the 1956–1960 period was only around ₱6.3 billion. The general pattern of sectorial priorities proposed in the public sector has already been discussed. An additional point of importance to the whole public sector needs to be made here with respect to government salaries.

173. The successful execution of a program along the lines suggested here will require recruitment to public service of the best talent the Philippines has to offer. In order to achieve this, it is suggested that salaries in the top levels of government be increased substantially. At present, the salary level for members of the Cabinet of ₱12,000 per year acts as the upper limit. This is far below the salaries of senior officials in private business—which reportedly range from ₱50,000 to ₱100,000. Further study is needed of the particular posts for which increases are most urgently required, and of the appropriate magnitudes, but it seems likely that around 2,000–3,000 jobs altogether might be involved at a total cost of roughly ₱10 million a year, or, say ₱40 million for the five-year period, assuming the increase went into effect during the fiscal year 1964. Allowance for this amount is included in the proposed program of current expenditures.

174. In addition to the direct outlays on current and capital expenditures, the following changes are envisaged in current transfers:

(*a*) Losses on inventories—mainly on tobacco—which amounted to an estimated ₱86 million in 1956–60 are assumed to be eliminated in 1963–67, as well as any further net increase in such inventories.[53]

(*b*) The fertilizer subsidy program is projected as phasing out—with an allowance of ₱30 million in 1963–66, as against expenditures of ₱54 million in 1956–60.

(*c*) A new subsidy is suggested by the Mission to help ease the impact of further exchange rate changes on the imported food items which are important in the budget of low income families. The most important of these are canned sardines, canned milk, and corned beef. Tentatively, ₱60 million is proposed to be spent for this purpose over the next two or three years. One of the objects of this subsidy would be to reduce the pressures for wage increases which will emerge with the higher prices of imports. The Mission wants to emphasize the temporary character of this measure. The Government should carefully consider what is the most appropriate method of granting the subsidy, so that it does not set a precedent for the future or for other sectors of the economy. Subsidies inevitably lead to the weakening of the public finances and to dangerous distortions of the cost-price structure.

(*d*) Public pensions, backpay payments, and public funds for uncovered GSIS liabilities are projected as rising from ₱139 million in the last five years to around ₱260 million in 1963–67. The exact extent of the Government's liability to GSIS on account of back coverage authorized in legislation but uncovered by individual contributions needs to be clarified, but on the basis of court decisions requiring GSIS to make payments on this back coverage, it seems likely that some government transfer will have to be made on this account.

(*e*) Interest payments on the debt of central and local governments are projected on the basis of the increase foreseen in debt outstanding. In total, these rise from ₱96 million in the past to ₱175 million in 1962–66.

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[53] This would allow still for some further gross purchases to the extent they coud be financed by sales from existing stocks. Alternatively if the purchase program were to be dropped altogether, any sales would produce additional revenue for the Government.

Land Purchases

175. Land purchases by the public sector amounted to ₱40 million in the 1956–60 period of which ₱18 million was for land reform and ₱22 million purchases by the People's Homesite and Housing Corporation mostly for land not needed for construction purposes. For the future we project ₱35 million to be spent on land reform and ₱15 million for public housing. Sales of some of the PHHC's present land holdings would provide additional funds which could be used for purchases of more suitable sites for low cost housing.

Capital Transfers

176. Since the last war, a number of public or semi-public institutions have been developed in the Philippines which channel credit to the private sector. The loans of these institutions have grown as follows over the past five years:

	Net Loans Outstanding (Million pesos)	
Mid-Year	1955	1960
Development Bank of the Philippines	458	498
ACCFA	30	80
Rural Banks[54] (Gov't equity and C.B. rediscounts)	3	27
Government Service Insurance System	140	400
Social Security System	....	20
Government pawnshops	7	17
Industrial Loan and Guarantee Fund	....	46
	638	1,088

Distributed by sector, the increase in loans outstanding has been approximately as follows:

In million of pesos

	Agric.	Industry	Real Estate	Consumption	Other	Total
Fiscal 56–60	122	84	115	46	83	450
Calendar 56–60	118	107	112	65	98	500

177. For the future, we suggest that allowance be made for an increase in government capital transfers to the private sector to about ₱1,400 million. Around ₱850 million would be for manufacturing on the basis of the considerations already discussed in the Industry Section of the previous chapter. For agriculture, in addition to the ₱200 million of credit through ACCFA and the Rural Banks, another ₱50 to ₱100 million might be added for credit from other government institutions, leaving ₱300–₱350 million for other sectors (including "consumption" loan), as compared with ₱275

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[54] Government actually has a minority ownership of 49% in the Rural Banks.

million in the past. As noted in the section on industry not all of the ₱850 million for that sector would necessarily be channeled through these institutions. A good part of it could take the form of lending back corporate profits tax, a device which would be probably administered by the Department of Finance. Another part could take the form of government loans or equity in development institutions.

Summary of Proposed Government Expenditures

178. In the summary, total projected public sector outlays for 1962–66 are as follows:

(Billions of pesos at current prices)

	Fiscal Years 1956–60	1963–67
Direct Outlays		
Current	4,490	6,940
Fixed Capital	1,700	3,940
Inventories	140	40
Total direct	6,330	10,920
Current Transfers:		
Subsidies	155	90
Pensions, back pay, etc.	139	260
Interest	96	175
Total current transfers	390	525
Land Purchases:		
Land reform	18	35
PHHC	22	15
Sub-total	40	50
Capital Transfers	450	1,400
Grand Total	7,220	12,895

Sources of Funds for the Public Sector

179. *Taxes at Existing Rates.* Under existing tax legislation and current rates of collection, government revenues would probably decline in 1966–67 to about 10.5% of the national product as compared with the level of around 11.5% apparently reached in 1960–61. The main reason for this is the scheduled expiration of the margin fee (now at 15%) which brought in around ₱200 million in 1960–61 or over 12% of total revenue. Taken together, other revenue would move approximately in line with the national product, although this is the net result of some taxes going up at a faster rate (especially where rate increases go into effect under existing legislation) while others decline relative to GNP. Assuming that the margin fee will remain in effect through fiscal 1963, total revenue in 1962–66

would amount to ₱9.2 billion, as compared with ₱5.85 billion in the fiscal years 1956–60. Without the margin fee, this total would be around ₱150 million less. In the year 1966, the total would be around ₱1.9 billion, compared with an estimated ₱1.6 billion in 1960–61.

Savings of Government Corporations

180. In the period of 1956–60, the operating corporation of the Government earned profits before depreciation aggregating about ₱100 million even after deducting losses of 30 million incurred by four of them.[55] For the future, we project a rise in such profits to ₱220 million. The main increase is expected from the National Power Corporation, following from the large expansion foreseen in sales, and the increase in power rates which went into effect during 1959–60. (Further rate increases may be necessary in the future to offset higher costs associated with the devaluation.) NPC's gross profits after interest are projected at ₱100 million, as against ₱32 million in 1956–60. For the rest, we assume an increase from ₱70 million in the past to ₱120 million in the future, on account of increases foreseen in such corporations as PAL, MRR, and NAWASA, as well as a decline in (or elimination of) losses by NARIC, ACCFA, etc.

181. The Government's financial corporations accumulated funds totalling nearly ₱500 million in the period 1956–60. Of this, about ₱100 million consisted of profits of the Central Bank and its various funds. Most of this profit arose from interest payments on the government bonds held by the Central Bank. With the future net increase in Government borrowings from the Central Bank projected at a minor amount (see paragraph 182 below), these profits will not rise much. However, there will be some increase in interest from foreign exchange reserves if these are built up to the proposed level. Finally, the losses of the Central Bank on foreign exchange transactions (amounting to ₱40 million in 1956–60) are assumed to be eliminated by 1962–66, so that on balance we project net profits to rise to ₱150 million in that period.

182. The Development Bank of the Philippines had net profits after interest of around ₱20 million in 1956–60; with the increase foreseen in loans outstanding (and possibly some increase in interest rates) this is projected at ₱40 million in the future.

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[55] Including the Post and Telecommunications operations, there are 16 such corporations; the most important are: The National Power Corporation (NPC), the Manila Railroad (MRR), the Philippine Air Lines (Pal), the People's Homesite and Housing Corporation (PHHC), the Manila Gas Corporation, the National Shipyards and Steel Corporation (NASSCO), the the National Water and Sewerage Authority (NAWASA), the National Marketing Corporation (NAMARCO) and the National Rice and Corn Corporation (NARIC, NARIC had set losses of ₱14 million in the period. The Post and Telecommunications Department had losses of ₱9 million.

183. Of much greater importance are the funds accumulated by the Government Service Insurance System and the Social Security System. The assets of the former rose by ₱290 million in 1956–60. We project a slightly lower absolute amount for 1962–66 (₱260 million) on the ground that extension of coverage will now grow at a slower rate. For the Social Security System, however, coverage is now expanding rapidly. Actuarial projections made by the staff of the SSS indicate expansion of at least ₱250 million in the next five-year period, as against ₱90 million in 1956–60 (the SSS started operations only in 1958).

Financing the Gap

184. In the aggregate, taxes at existing rate, earnings of government corporations and accumulation of funds by the GSIS and SSS would total ₱10.1 billion for 1962–66, compared with the proposed expenditure program of ₱12.9 billion, leaving a gap of ₱2.8 billion:

Sources of Funds:	1956–60	1962–66
Taxes at existing rates	5,850	9,200
Surplus of Government Operating Corporations	100	220
Surplus of Central Bank Trust Funds	100	150
Profits of the DBP	20	40
Increase in Assets of GSIS	290	260
Increase in Assets of SSS	90	250
Total	6,450	10,120
Total Outlays	7,220	12,900
Gap	770	2,780

185. In the 1956–60 period, the Government deficit on capital account of ₱770 million was covered by use of foreign funds amounting to ₱240 million, borrowing from the banking system of ₱380 million (net of the buildup in cash balances) ₱15 million sales of bonds to the public sector and ₱80 million to government trust fund,[56] leaving an errors and omissions item of ₱70 million (which probably result from an over statement of expenditures—and the deficit) in that period. For 1962–66, we project public sector use of the foreign resources at $300 million (₱1,050 million) out of the net foreign inflow total of $800 million discussed earlier. This leaves a gap to be filled domestically of ₱1,730 million. To finance this amount three main possibilities are left: bond sales to the private sector other than the banking system, sales to the banking system, and increased taxes.

186. As indicated, bond sales outside the banking and public sectors were very small in the past. The main reason for this is the low level of interest rates on government bond. Supported gov-

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[56] Excluding the GSIS, SSS and Securities Stabilization Fund, which are already accounted for in total sources of funds.

ernment bonds yield rates of only 4%. A non-supported issue at 6% was attempted but did not succeed. The Mission believes that it is both desirable and possible to create a real market for government securities in the Philippines. This could be done with short-term paper as well as with long-term bonds. Determining the appropriate interest rates necessary to achieve this would require careful study of the existing interest rate structure. However, the Mission's tentative impression is that, with a stable domestic and external financial position, an interest rate of between 7 and 8% tax free would probably attract significant investment in long-term government bonds. On the assumption that such action will be taken during the period, we have projected a net rise in bond sales to the private non-banking sector of ₱150 million over the next 5 years.

187. Borrowing from the banking system is projected at only ₱80 million for the future. This is a residual item deriving from (*a*) our estimates of the requirements of the private sector for commercial bank credit, and (*b*) the limits imposed on total bank credit by the need to build up foreign exchange reserves and at the same time to avoid inflationary increases in the money supply. These considerations are in Section C below.

New Taxes

188. Thus there remains a gap to be filled by increased taxation of around ₱1,500 million. Philippine Government revenue as a proportion of G. N. P. is low compared with other less developed countries. The average ratio for the last five years is 10% in the Philippines compared to more than 20% in Burma, Ceylon and Taiwan. More than one third of Philippine tax revenue is derived from imports. There are no export taxes. The personal income tax plays a relatively minor role owing to (*i*) the high level of exemptions and deductions, (*ii*) widespread evasion and (*iii*) low marginal rates in the middle income brackets. The corporate tax is gaining weight with growth in the manufacturing sector and expiration of exemptions. Revenue from agricultural land taxes has been stagnating at a very low level.

189. The over-all structure of taxation is such that revenue receipts are not responsive to increases in income. As already noted, revenue receipts at existing rates may fail to keep pace with G. N. P. between fiscal 1960 and 1967. This implies a marginal tax rate lower than the average, on the basis of existing legislation. If no new taxes are enacted, the Philippine Government will have to be content with playing a receding role in economic activity. Given the needs for public expenditures and capital transfers already outlined, this outcome would lead to a most serious weakening of the

economic and social base of the Philippine economy. If the Philippine Government wants to follow purposive economic policies, tax revenues must be raised significantly.

190. Achieving the suggested target of ₱1,500 million in new taxes implies a marginal tax rate, in relation to GNP, of 22% and an average rate in 1966–67 of 14% compared to 11.5% in 1960–61. Even after the implementation of this program, the Philippine tax effort will remain modest compared to neighboring Asian countries which have lower per capita incomes. Seen in this perspective, the target suggested by the Mission appears realistic. If the Philippines implements this goal with political determination it will be demonstrating a national willingness to bear sacrifices in the pursuit of socio-economic progress.

191. The outline of a desirable tax reform is discernible, although specific measures must await a thorough investigation. The devaluation of the peso which is now in process involves a relative shift in incomes from the manufacturing and trade sectors to the agricultural and mining interests. In addition, exporters of sugar receive a dollar price in the U.S. market which is well above the world market price. The Mission recommends that a part of this windfall gain should be captured by the public sector, in the form of export taxes on particular commodities. We suggest differential taxes rather than a uniform export tax, on the grounds that the latter is detrimental to an appropriate allocation of resources. Large expansion in the export volume of sugar[57] and logs (and probably of abaca and copra) is likely to yield returns to the national economy much lower than equivalent increases in exports of other agricultural, mineral or manufactured products. The Mission is unable to recommend the precise form and rate of specific taxes, but our impression is that altogether export taxes can yield at least ₱600 million and possibly much more over the period of the program.

192. The long-term policy objective must be to place increasing reliance on the taxation of incomes and transactions in the domestic sector of the economy rather than the foreign trade sector. The secular growth of national income is likely to be more rapid than imports and exports. Secondly, the value of foreign trade transactions can be expected to show greater fluctuations than home production. For both these reasons, tax revenues would show greater growth and reduced instability if they were less dependent on foreign trade. Greater reliance must therefore be placed on the corporate and personal income taxes, inheritance and estate duties, the real property tax and sales taxes.

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[57] Beyond that for the U.S. market.

193. The present rate of the corporate tax—22% of the income up to ₱100,000 and 30% on income above this level—is low, compared to India, Pakistan (45%) or U.S.A. (52%). The actual collection in fiscal 1960 was only 21% of declared corporate net income. This relatively low effective rate would be vindicated from the economic point of view if a large part of post-tax profits were reinvested. Available evidence indicates that this did not take place in the past. If reinvestment continues to be low even after the devaluation, the rate of corporate profit tax should be raised. Provided the effective tax rate is raised to 30%, the yield might increase by as much as ₱400 million during the plan period.

194. The personal income tax is not yet a mass tax. More than 96% of Filipino families are legally excluded from the purview of the tax. Illegal tax evasion is practiced extensively. The actual number of returns is only half what it ought to be. Income taxed in fiscal 1960 was about 4% of total personal income. The effective tax rate paid by middle income brackets (₱7,000 to ₱10,000 family gross income) was substantially below 1%. The Mission recommends an upward revision of the rate structure, as well as vigorous steps to reduce illegal evasion. Tentative calculations suggest that such a reform may increase yield by more than ₱100 million between fiscal 1963 and 1967.

195. Another obvious possibility for increased revenue is a higher tax on gasoline. At 8 centavos a liter, the Philippine gas tax is among the lowest in the world. An increase to around 12 centavos would yield increased revenue of around ₱260 million for the period as a whole.

196. Finally there are very strong economic and social grounds for much higher taxes on real estate—both urban and rural. In 1956–60, real property taxes yielded ₱265 million. We would suggest that with better enforcement, faster progress on land surveys and title registration urged in the section on Agriculture, and some increase in rates, the yield of this tax might well be increased to as much as ₱500 million in the period, as against the ₱320 million projected on the basis of existing tax rates and records of enforcement.

197. In the full report, the Mission will have additional suggestions regarding the tax system.

C. MONEY SUPPLY AND CREDIT

198. Between 1955 and 1961, the money supply in the Philippines rose by 57% or just about the same rate as the national product in current prices. For the period between 1961 and 1966 we project an over-all growth rate in real income of 6% a year. Given the increase in financial stability also assumed, and the increased rate of economic development projected in the rural areas, we estimate that there would be some tendency for people to increase their holdings of money relative to over-all output. Thus we project a growth in money supply at an average rate of 6.7% which would correspond to a rise of ₱800 million in the five-year period, as against ₱764 million in 1955–61.

199. Whether such a rate proves excessive or whether it could be increased without generating inflationary pressures can, of course, be determined only by careful observation. In any event, the Central Bank will have to take action through its control over credit to vary the rate from time to time depending on actual developments in prices and import demand. It is precisely to provide the leeway needed to make such changes smoothly that foreign exchange reserves should be built up substantially.

199*a*. As already indicated, we suggest that exchange reserves be increased by at least $150 million (₱530 million) between 1962 and 1966. Such an increase would account for most of the assumed rise in money supply, and would require limiting money creation by net domestic credit expansion to less than ₱300 million as compared to nearly ₱1 billion between 1955 and 1961.

	(Million of pesos)		
	1955	1961	1966
Amounts Outstanding (end period)			
Money Supply	1336	2100	2900
Net foreign exchange reserves	398	200	730
Net domestic credit from banking system	938	1900	2170

Such a limit on net credit expansion would require careful control by the Central Bank over operations of the commercial banks, and great restraint by the public sector in its borrowing from the banking system. Given such restraint, however, it is likely that sizeable gross credit expansion to the private sector would still be possible on the basis of expected investment by the private sector in financial assets.

200. In spite of tendencies toward capital flight, private investment in financial assets other than currency and demand deposits rose at a rate of around 14% between 1955 and 1961.[58] Time and savings deposits rose by an average of 12.5% while investment in bank equities, insurance and other financial assets went up even faster. However, these rates of increase were based on relatively low starting points, and it is unlikely that they can be increased in the next five years, despite the increase in confidence expected from greater financial stability. Factors which would dampen the growth rate somewhat are the expected tendencies for holdings of currency and demand deposits to grow more rapidly than real income and for private individuals to hold more government bonds. However, we would expect the growth rate in such investments to remain high, perhaps in the range of 12–13%. In absolute terms, we project growth in financial investments out of current income at ₱1.46 billion (a 12.5% rate) between 1961 and 1966. In addition, we would expect that some of the projected foreign capital inflow—particularly repatriation of Filipino capital and war-damage claim payments—would find its way into investment in domestic financial assets. An additional ₱200 million is projected on this account, bringing the total to ₱1.66 billion. Added to the allowance for domestic money creation of ₱270 million,[59] this amount of financial investment would permit banks and other private financial institutions to expand credit to the domestic sector by around ₱1.93 billion in 1962–66.

201. There remains the question of how much of this total could be extended to the public sector. In the past six years, credit to the private sector from domestic financial institutions[60] expanded at an average rate of around 15% per year. Credit to the public sector grew nearly as fast in that period. Even after allowing for the expected drop in the proportion of fixed investment financed by commercial banks, it still seems likely that the achievement of the large increase projected in private capital expenditures would require additional credit from banks and other private financial institutions at a rate of 10–12% annually. An 11% rate on the estimated amount of ₱2.7 billion outstanding from these sources at the end of 1961 would require an increase of ₱1.85 billion in credit to the private sector by the end of 1966. Thus, of the total credit available under our assumptions, only a negligible amount would be left for the public sector. Projections of the main financial flows are summarized in the following table.

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[58] Average of June and December 1961 (estimated) compared with average of June and December 1955.

[59] The difference between the ₱800 million "allowable" increase in total money supply and the ₱580 million increase projected in foreign exchange reserves.

[60] Other than the government institutions described on page 62.

Sources and Uses of Fund by Financial Institutions[61]

Amounts outstanding end period in millions of pesos

	1955	1961 (Est.)	1966
Sources of Funds—Total	2171	3890	6350
Currency and Demand Deposits (private)	1336	2100	2900
Other Financial Investments from current income	835	1790	3250
Time and savings deposits (private)	538	1030	1800
Investment in equity of commercial banks	147	370	550
Investment in other financial institutions	....	60	250
Investment in Insurance (net)	150	330	650
Investment of funds from abroad in financial institutions	....	....	200
Uses of Funds—Total	2171	3890	6350
Foreign Exchange Reserves	398	200	730
Credit to Private Sector	1251	2740	4590
Commercial Banks	1101	2350	3590[62]
Other Financial Institutions	....	60	350[62]
Insurance Companies	150	330	650
Bank credit to Government (net)	482	850	930
Other uses of Funds	40	100	100

D. FINANCING PRIVATE SECTOR INVESTMENT

202. Of the gross investment total of ₱14.3 billion projected for 1962–66, the private sector component amounts to about ₱10.3 billion, as compared to around ₱6.3 billion in real terms during 1956–60. In current prices, the 1956–60 total was ₱5.4 billion. Thus, the financial bill for the private sector would nearly double in 1962–66. Total private savings are projected to grow by around 60%—from an estimated 4.7 billion in 1956–60 to ₱7.6 billion in 1962–66.[63] The latter amounts to 10.7% of projected disposal private income, as compared with 9.3% in 1956–60, implying a marginal rate of 15%. As already noted, it is believed likely that a substantial

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[61] Other than Government Institution listed on page 62.

[62] Includes ₱100 millions arising from investment of foreign funds.

[63] Derived as a residual: total investment less the foreign deficit less government savings.

portion of domestic savings will be channeled through private financial institutions—some ₱2.3 billion, or 30% of the total, as against an estimated 29% in 1956–60.

203. Projections of credit available for financing private investment from these institutions and from the Government have already been given. Funds available to the private sector from abroad are projected at around ₱2.1 billion ($590 million). This is the residual of the total capital inflow projected at $950 million after allowance for $300 million in the public sector and $60 million investment in domestic financial institutions.[64] Of this $590 million, it is estimated that around $190 million would be reinvested earnings of foreign firms. The remainder consists of reparations to the private sector (less local currency repayments to the Government), that portion of the war-damage claim payments and repatriation of capital not allocated to investment in financial institutions, net new foreign investment, and net use of conventional borrowings.

204. The over-all picture of projected financing for the private sector emerges as follows:

	Millions of pesos current prices		Percentages	
	1956–60	1962–66	1956–60	1962–66
Capital expenditures	5370	10350	100.0	100.0
Financing				
Funds from abroad (direct)	565	2060	10.5	19.9
Funds from government institutions	540	1450	10.5	14.0
Funds from commercial banks	814	1240	15.1	12.0
Funds from other financial institutions	210	610	3.9	5.9
Financed within sector	3240	4990	60.3	48.2

205. It may be seen that major changes are projected in the pattern of finance for the private sector, with large proportionate declines indicated for self-financing and financing from the commercial banks. On the other hand, a substantial increase is projected in the share of direct foreign financing—and smaller, but significant, increases projected in the relative importance of funds from long-term government and private financial institutions. It should be noted that if the funds retained as the result of tax exemption for "new and necessary" industries in the past are counted as a transfer from the Government, then the Government's share in financing

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[64] The increase in reserves of $150 million is accounted for in projecting an increase in total domestic credit of ₱530 million less than the expected sources of funds to credit institutions.

past investment rises to about 18.2% and self-financing drops to 52.8%. As noted in the section on industry, however, it appears probable that not all of these particular funds were in fact reinvested within manufacturing itself.

General

206. The investment program which the Mission suggests is large. While a substantial provision has been made for foreign financing, the largest part of the burden—four-fifths—will have to fall on the domestic economy. This is unavoidable. Furthermore, in view of the necessary increases in government outlays—direct public investment, current expenditures, capital transfers—the success of the developmental drive will depend on the tax effort. Inflationary financing would defeat its own purpose. It would shift the burden to the lower income groups when the very purpose of the investment program should be to lay a foundation for a sustained improvement in their welfare. It would lead to distortions in the pattern of investment which the economy can not afford. It would reduce capital inflow and thus curtail the aggregate amount of resources, available for investment. If the Government and the society are not prepared to stand a considerably higher tax burden, then the investment program should be cut back.

207. On the other hand, if a savings and investment effort of the suggested magnitude is made, the Philippine economy could look towards a brighter future. To be sure, a further increase in the rate of savings will be necessary in the later 1960's, and this will call for a new major effort. However, the burden will be proportionately less. The economy will have made a significant step forward in raising the income level. An industrial complex oriented towards intermediate and eventually producers goods industries will be under way. Plentiful agricultural resources will begin to be used in a rational manner. There is a possibility—indeed a likelihood—that with economic improvement and urbanization the rate of population growth will eventually slow down. Above all, there will be an increase in confidence that structural problems of the Philippine economy are susceptible to solution.

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